



PACIFIC BRANDS LIMITED ABN 64 106 773 059  
AND ITS CONTROLLED ENTITIES

LISTING RULE 4.3A

ASX APPENDIX 4E  
FOR THE YEAR ENDED 30 JUNE 2015

The following information should be read in conjunction with the preliminary Annual Report for the above period.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Sales revenue from continuing operations	Up 5.4% to	\$789.7 million
Earnings (loss) before, interest, tax from continuing operations	n.m. <sup>2</sup>	(\$84.8) million
Earnings before interest, tax and significant items from continuing operations <sup>1</sup>	Down 4.8% to	\$64.2 million
Net loss after tax from continuing operations	n.m. <sup>2</sup>	(\$107.0) million
Net loss attributable to owners of the Company	n.m. <sup>2</sup>	(\$97.7) million

<sup>1</sup> Individually significant items are disclosed in Note 6 to the preliminary Annual Report

<sup>2</sup> Movement from previous corresponding period not considered meaningful

DIVIDENDS

The Company's Directors have not recommended a final dividend for the year ended 30 June 2015.

OTHER INFORMATION

	CURRENT PERIOD	PREVIOUS CORRESPONDING PERIOD
Net tangible asset backing per ordinary share:	\$0.17	\$0.11

The previous corresponding period is 30 June 2014.

The information above has been subject to audit by KPMG.

Please refer to the Operating and Financial Review contained within the preliminary Annual Report for a review of operations and activities for the reporting period.

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Pacific Brands Appendix 4E: 30 June 2015

# PACIFIC BRANDS

## PRELIMINARY ANNUAL REPORT 2015

### FINANCIAL, STATUTORY AND OTHER INFORMATION

Operating and Financial Review	8
Corporate Governance Statement	19
Directors' Report	32
Remuneration Report	35
Lead Auditor's Independence Declaration	53
Financial Statements To Shareholders	54
Notes To The Financial Statements	59
Directors' Declaration	85
Independent Auditor's Report To The Members Of Pacific Brands Limited	86
Shareholders' Statistics	87
Shareholders' Information	88
Company Directory	89
Abbreviations/Definitions	90

#### Non-IFRS financial information

In addition to statutory reported amounts, certain non-IFRS measures are used by Directors and management as measures of assessing the financial performance of the Company and individual operating groups, including: cash conversion; comp store sales growth; debtor days, creditor days and inventory turns; return on capital employed; sales by brand, channel and business. The Directors consider that these performance measures are appropriate for their purposes and present meaningful information on the underlying drivers of the business. Many of the measures used are common practice in the industry within which Pacific Brands operates.

Some non-IFRS financial information is stated before significant items as disclosed in Note 6 to the Financial Statements. Results excluding such items are considered by Directors to be a better basis for comparison from period to period as well as more comparable with future performance. They are also the primary measure of earnings considered by management in operating the business and by Directors in determining dividends taking into account other considerations.

#### Page number references

The preliminary Annual Report is an extract from the full Annual Report to be completed in due course and commences on page 8 and concludes on page 90.

# OPERATING AND FINANCIAL REVIEW

## Business overview

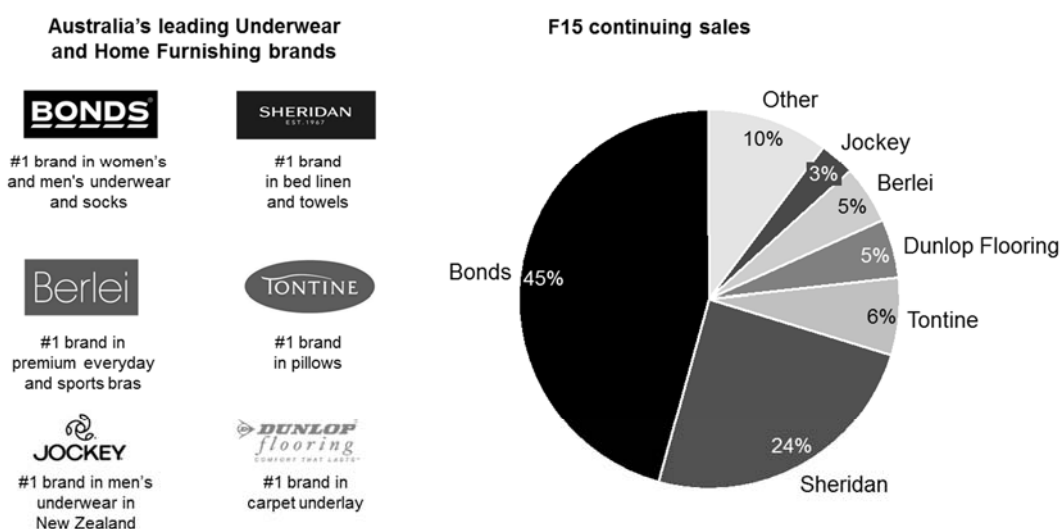
Pacific Brands Limited ('the Company') is an Australian consumer products company that owns a portfolio of iconic brands. The Company has come a long way from manufacturing Dunlop bicycle tyres in 1893, becoming Australia's leading underwear and home furnishing company with some of the best loved brands in Australia.

The Company is organised into three reportable segments ('Operating Groups'):

- Underwear: which supplies underwear, bras, socks, hosiery, babywear, activewear and outerwear categories
- Sheridan: which supplies premium bedding products and accessories, towels and other home lifestyle categories
- Tontine and Dunlop Flooring: which comprises a pillow and quilt business and a flooring products business supplying carpet underlay and hard flooring

The main brands are summarised below in terms of their market positioning and contribution to sales revenue. A more detailed description of the activities and brands within each Operating Group is set out on pages 13 to 15.

### Higher quality, simplified business with greater growth potential and a strong balance sheet



Note: Brand positions supported by independent brand awareness and retailer research. Carpet underlay based on market share. Chart subject to rounding

The vast majority of the Company's sales are from brands which it directly owns. Sales from licensed brands represent 4% of sales and relate primarily to a long term relationship with Jockey.

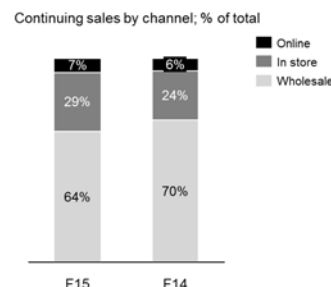
## Channels

The Company's products are sold through wholesale and retail channels (in store and online), with the majority (64%) sold through wholesale channels. Over recent years the proportion of retail sales has consistently increased as the Company continues to roll out new retail stores, improve in store execution and grow online, while wholesale sales have been negatively impacted by market challenges and dynamics.

The wholesale channel essentially includes:

- Department stores ('DS'): eg David Jones (excluding concessions), Farmers, Myer
- Discount department stores ('DDS'): eg Big W, Harris Scarfe, Target
- Independent/other retailers: branded retailers that are large, generally national, retail chains and small and medium enterprises
- Supermarkets: eg Aldi, Coles, Metcash, Woolworths

### Growing proportion of retail sales (in store and online)



The Company's five largest wholesale corporate customers (by sales) in alphabetical order are Farmers, Myer, Pepkor (Best & Less and Harris Scarfe), Wesfarmers (Coles and Target) and Woolworths (Big W and Woolworths supermarket). These five customers collectively represented 46.2% of sales in F15.

An important part of the Company's strategy is to continue investing in the retail channel, and retail sales (in store and online) have increased as a percentage of total sales from 30% in F14 to 36% in F15. During the year, the Company opened 18 new Bonds stores and 3 new Sheridan stores in Australia.

As at 30 June 2015 the Company's retail network comprised the following stores:

	BRANDED	CONCESSION <sup>1</sup>	OUTLET <sup>2</sup>	TOTAL STORES	ONLINE	TOTAL NETWORK
Underwear	44	-	35	79	4	83
Sheridan	17	78	48	143	3	146
Tontine and Dunlop Flooring	-	-	1	1	1	2
<b>Total</b>	<b>61</b>	<b>78</b>	<b>84</b>	<b>223</b>	<b>8</b>	<b>231</b>

<sup>1</sup> Concessions are stores within a store. In Australia they are within David Jones. In the UK, they are predominantly within Debenhams and House of Fraser. Sales in concessions are classified as retail sales

<sup>2</sup> Outlet and clearance stores

Two new concession arrangements have been agreed. The Company's first concession arrangement in Myer will showcase a new Bonds Sport range which will be in stores from November; and Sheridan also extended its partnership with David Jones to include new Kids and Baby concessions in 35 David Jones stores across Australia, providing additional trading space opening from October 2015.

## Regions

All products are sold predominantly throughout the Asia-Pacific region, mainly Australia and, to a lesser extent, New Zealand. Certain products are also marketed and distributed in the UK, Europe and the Middle East. F15 sales by geography were split as shown in the table opposite.

COUNTRY/REGION	%
Australia	90.9
New Zealand	5.5
Europe (including the UK)	2.5
Asia (including the Middle East)	1.1
<b>Total</b>	<b>100.0</b>

International expansion is also an important element of the Company's strategy and during the year the Company entered into a joint venture arrangement to secure the rights to the Berlei brand outside of Australia and New Zealand. The initial focus will be on taking Berlei sports bras and intimate apparel to the European and US markets, leveraging Serena Williams' global endorsement of Berlei sports bras. The joint venture will have no impact on the governance, operations and financials of the Company's existing Berlei business in Australia and New Zealand.

## Supply chain

The vast majority (c.77%) of the Company's products are sourced from third parties, generally from overseas and typically paid for in US dollars. The Company currently sources the majority (c.66%) of its products from China, but sources from a total of 14 countries including Australia, Cambodia, India, Indonesia and a number of other predominantly Asian and European countries.

The Company has a sourcing operation based in China with offices in Dongguan and Shanghai. The majority of third party product is sourced directly through these offices or through sourcing operations in Australia, with some use of sourcing agents in certain categories where greater category scale and/or expertise exists externally.

The Company also has its own manufacturing. The main manufacturing sites are:

- Campbellfield, Victoria: pillows and quilts
- Sunshine, Victoria and Wetherill Park, New South Wales: carpet underlay
- Jakarta, Indonesia: bras and underwear

In addition to the above manufacturing sites, the company has three distribution centres ('DCs') in Australia, New Zealand and the UK, the largest of these being at Truganina in Western Melbourne. Following the divestment of the Workwear and Brand Collective businesses, the Sheridan group's warehousing and logistics operations are currently being integrated into Truganina along with the Underwear group.

During F15, the Company released enhanced ethical sourcing disclosure through its website, providing greater transparency of the Company's ethical sourcing program. The new disclosures can be found at <http://www.pacificbrands.com.au/ethical-sourcing/>.

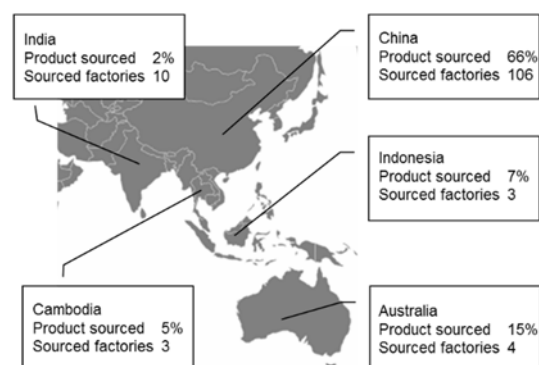
## People

In total, the Company employs c.3,600 people across five countries. The majority of these employees are based in Australia and New Zealand (c.2,100), with the next biggest region being Asia with c.1,300. The majority of employees (c.2,600) are in non-manufacturing roles.

## Achievements

F15 was a significant year for the Company with the divestment of Workwear and Brand Collective resulting in a higher quality, simplified continuing business with greater growth potential and a strong balance sheet.

Major sourcing regions



## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### Strategic and financial achievements

In June 2014, the Company announced that it was conducting a strategic review. The corporate strategic and financial priorities at the time are outlined below along with the related outcomes. All objectives were achieved ahead of plan.

OBJECTIVE	STATUS	OUTCOME
Restore balance sheet strength	✓	<ul style="list-style-type: none"> <li>▪ Divestments generated \$219 million of net cash proceeds</li> <li>▪ Improved working capital management including significant improvement in underlying inventory turns</li> <li>▪ Cash conversion of 119%</li> <li>▪ Net cash positive at 30 June 2015 for the first time in the Company's history</li> </ul>
Adopt a more balanced growth and disciplined cost agenda	✓	<ul style="list-style-type: none"> <li>▪ Investment focused on Bonds and Sheridan</li> <li>▪ Bonds store rollout on track (18 new stores opened during the year)</li> <li>▪ Gross margin % stabilised and increased in the second half</li> <li>▪ Non-retail CODB down despite inflation and sales growth</li> </ul>
Move to a more decentralised organisational model	✓	<ul style="list-style-type: none"> <li>▪ Significant corporate cost reduction to offset stranded cost impact of divestments – c.\$25 million of unrecovered corporate costs will have been offset through various cost saving initiatives following full transition of divestments</li> <li>▪ Various functions decentralised</li> </ul>
Review portfolio rationalisation options	✓	<ul style="list-style-type: none"> <li>▪ Divestments of Workwear and Brand Collective (generating a profit on sale of \$7.8 million)</li> <li>▪ Brand Collective fully transferred to new owner; Workwear transition to be substantially completed in 1H16</li> <li>▪ Continuing business substantially simplified</li> <li>▪ Strategic review completed</li> </ul>

### Operational and business development achievements

There have also been significant operational and business development achievements during the year.

OVERVIEW	DESCRIPTION
Continued investment in product innovation and brand building	<ul style="list-style-type: none"> <li>▪ Bonds 100 anniversary range, Bonds Tights, Bonds Sport, Berlei Sensation, Sheridan lifestyle products, Dunlopillo range and Heartrigde flooring</li> <li>▪ New brand ambassadors: Iggy Azalea for Bonds, Jessica Marais for Berlei Sensation and a global extension with Serena Williams for Berlei Sport</li> </ul>
Wholesale challenging but significant efforts underway to improve performance	<ul style="list-style-type: none"> <li>▪ Partnering with retailers to improve seasonal and basics ranging mix, stock availability, promotional effectiveness, event execution and in store experience</li> <li>▪ Retail insights and learnings being leveraged in wholesale</li> </ul>
Retail expanded and performance improved	<ul style="list-style-type: none"> <li>▪ 18 Bonds stores and 3 Sheridan stores opened in Australia, with strong comp growth and improved profitability across both businesses</li> <li>▪ In store and online sales now 29% and 7% of total group sales respectively</li> </ul>
Substantial focus on business development activity	<ul style="list-style-type: none"> <li>▪ Berlei International joint venture established and launched in Europe</li> <li>▪ New Bonds Sport range developed for launch in new Myer concessions</li> <li>▪ New Sheridan Kids and Baby range developed for launch in new David Jones concessions</li> <li>▪ Crestell pillow and bedding accessories business acquired</li> </ul>
Supply chain and inventory management improvements driven by application of Lean	<ul style="list-style-type: none"> <li>▪ Reduced SKUs, simplified supplier base and lower FOB product costs</li> <li>▪ Faster seasonal development calendar and manufacturing lead times</li> <li>▪ Lower stock levels despite FX depreciation and growth, and improved DIFOT</li> <li>▪ Lower warehousing and distribution costs</li> </ul>

### Progress against key group challenges

Significant efforts are underway to mitigate challenges in certain wholesale channels. Key initiatives include partnering with customers to improve forecasting and retailer stock availability, refining in store layout and fixturing to improve the shopping experience for customers of our retail partners, rebalancing basic/seasonal range mix and improving promotional effectiveness, and exploring further concession and brand/category opportunities.

The Company also has plans in place to mitigate currency headwinds. Mitigating actions include working with suppliers to capture further cost reduction opportunities, reducing CODB and increasing prices. Significant price increases are required to partly offset the gross profit dollar impact of currency depreciation net of potential volume impacts.

## Financial Performance

The following analysis and commentary addresses financial performance for the Company for F15. Refer to pages 13 to 15 for further details regarding individual segment performance.

	F15 \$M	F14 \$M	CHANGE	2H15 \$M	2H14 \$M	CHANGE
Sales <sup>1</sup>	789.7	749.2	5.4%	397.9	379.5	4.8%
EBIT pre significant items <sup>1,2</sup>	64.2	67.5	(4.8)%	32.7	25.9	26.3%
NPAT pre significant items <sup>1,2</sup>	37.5	35.7	5.1%	20.7	12.5	65.9%
NPAT reported	(97.7)	(224.5)	n.m.	11.0	(5.5)	n.m.

1 Continuing business

2 Significant items contained in Note 6 of the Financial Statements

### Sales

Sales in F15 increased by 5.4% with growth in all Operating Groups. In Underwear, sales growth of 4.0% was driven by retail, with wholesale sales down driven by challenges in the DDS channel. Bonds branded sales increased by 13.0% driven by retail growth with wholesale sales flat. Bonds' retail growth was due to further current year store rollout (18 new stores) and comp sales growth (20% including online). Sheridan branded sales growth of 14.5% was driven by strong Australian retail comp sales performance through better execution of retail operations, category expansion and clearance of excess stock. Tontine and Dunlop Flooring was broadly flat with Tontine sales down partly offset by growth in Dunlop Flooring through its carpet underlay business.

### Gross margins

Gross margins excluding significant items decreased by 0.8 percentage points (from 50.1% to 49.3%) as a result of a decline in Underwear gross margins due to increased promotional activity, associated trade spend and higher clearance sales, and the net adverse impact of FX, product costs, price increases and duty benefit. However, the trajectory improved in the second half with gross margins stabilising due to the positive sales mix impact of higher retail sales and increased focus on margin improvement partially offset by FX (net of duty benefits) and higher clearance sales. With respect to FX, approximately 75% to 80% of COGS is settled in USD and the average AUD:USD rates through the profit and loss account were c.0.99 in F14 and c.0.90 in F15.

### Cost of doing business (CODB)

CODB was tightly managed with CODB as a percentage of sales held flat from F14 to F15, despite increased investment in retail and associated costs. Excluding retail store expansion, CODB decreased due to restructuring, cost control initiatives and warehouse productivity improvements.

### EBIT pre significant items

EBIT pre significant items was down 4.8% from \$67.5 million to \$64.2 million, principally due to the gross margin decline in the first half versus the prior year. However, second half EBIT was up 26% due to improved gross margins and tight cost control.

### Significant Items (Other expenses)

The reported result in F15 was impacted by significant items (\$149.1 million), due mainly to first half non-cash writedowns of goodwill and brand names, and primarily related to Underwear portfolio and hosiery brand names (\$81.3 million) due to a change in CGUs, FX and market dynamics and Sheridan goodwill (\$35.1 million) impacted by currency depreciation.

### Interest and tax

Net interest expense was down, from \$17.8 million to \$12.9 million, reflecting the significant reduction in net debt due to proceeds from divestments (\$219 million) and improved cash flow management, mainly due to improved inventory turns and increased creditor terms. Excluding the impact of significant items, the effective tax rate for the continuing business reduced from 28% to 27%.

### NPAT and dividends

NPAT pre significant items increased by 5.1% from \$35.7 million to \$37.5 million. The significant items in F15 resulted in a reported NPAT loss of (\$97.7million).

No final dividend has been declared for F15 with balance sheet strength being prioritised during the year. It is the Company's current intention to resume dividends in relation to the 1H16 result, with a target payout ratio of greater than 50%, subject to financial position and outlook at the time.

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### Financial Position

Set out below is a summary of the financial position as at 30 June 2015 compared to the position as at 30 June 2014:

	F15 \$M	F14 \$M	CHANGE \$M	CHANGE %
<b>Working capital (continuing business)</b>	<b>117.2</b>	<b>136.2</b>	<b>(19.0)</b>	<b>(14.0)</b>
Working capital/LTM sales (%)	14.8	18.2	(3.4)pts	n.m.
Debtor days (days)	34.3	32.6	1.7	5.2
Inventory turns (x)	3.1	2.7	0.3	12.8
Creditor days (days)	80.2	67.2	13.0	19.3
Capital expenditure <sup>1</sup>	17.7	22.2	(4.5)	(20.3)
Tangible ROCE (%) <sup>1</sup>	40.2	26.3	13.9pts	n.m.
Net cash/(debt)	0.9	(249.1)	250.0	100.4
Cash conversion	119%	58%	62pts	n.m.

1. Reported, other amounts are continuing business

#### Working capital

Continuing business inventories were down \$7.1 million versus F14 and stock turns improved to 3.1x due to a greater focus on clearance of aged and excess inventories, reduced SKUs, simplified supplier base and lower FOB product costs, faster seasonal development calendar and manufacturing lead times and improved forecast accuracy and bias which more than offset an adverse currency inflationary impact of over \$10 million.

Debtor days were broadly stable. Creditor days increased largely driven by the inflationary impact of currency and extended supplier terms.

#### Capital expenditure

Capital expenditure during the year related primarily to new store openings.

#### Returns

Return on tangible capital increased 13.9pts to 40.2% due to the higher quality business following divestments and improved working capital.

#### Net cash/(debt) and cash conversion

Cash conversion has increased significantly over the past 12 months due to improved working capital management, mainly attributable to lower excess stock in the Underwear operating group, and increased creditor terms for overseas suppliers.

The Company is now debt free for the first time in its history, being an improvement of \$250 million on the F14 net debt position due to net proceeds on divestments (\$219 million) and the improved cash flow mentioned above. The Company has strong credit metrics and is compliant with all covenants. Debt facilities have been downsized to reflect the size of the continuing business and to reduce commitment fees, while maintaining some flexibility.

## Operating group summaries

### Underwear

	F15 \$M	F14 \$M	CHANGE %
Sales	508.6	489.2	4.0
EBIT (pre significant items)	60.2	61.3	(1.8)
EBIT (reported) <sup>1</sup>	(24.7)	69.6	n.m.

1 Reported EBIT includes 1H impairment of goodwill and brand names in F15 and profit on sale of the Wentworthville property less other significant items in F14

#### Nature of operations

The Underwear group comprises a portfolio of brands including key market leading names across a variety of categories:

- Bonds (underwear, socks, babywear, outerwear, bras, activewear)
- Berlei (bras, underwear, hosiery)
- Jockey (underwear, socks, activewear)
- Explorer (socks, underwear)
- Hosiery brands (eg Razzamatazz, Sheer Relief, Voodoo)
- Other brands including Rio (socks, underwear), Holeproof (socks, underwear), Hestia (bras, underwear), the TMI licensing division (underwear, socks) and Red Robin (socks)

The majority (c.73%) of sales for the Underwear group are to wholesale customers, with the bulk of those to major retailers (mainly DDS, but also with significant sales to DS and supermarkets). In addition, the group increasingly sells directly to consumers through its network of retail stores (branded, outlet, clearance) and online stores. Such sales represent c.27% of Underwear group sales.

The vast majority of sales are in Australia (over 90%), with the bulk of the remainder in New Zealand.

In terms of categories, underwear accounts for nearly half of sales, with socks the next largest category followed by bras and outerwear (including activewear), babywear and hosiery.

#### Strategic priorities

The Underwear group's strategic priorities are as follows:

- Invest in Bonds and other key brands
- Drive big innovation and faster fashion
- Reshape and grow wholesale contribution
- Maximise retail potential
- Progressively grow international distribution for Bonds and Berlei
- Sustainable, Lean global supply chain

#### F15 results performance

Sales grew by 4.0% overall, underpinned by strong growth in Bonds (+13% to \$357.9 million in F15):

- Growth in owned retail (new stores and comp sales growth across the network)
- Wholesale sales flat, with underperformance in DDS offset by growth in the supermarket channel
- Babywear and socks sales particularly strong
- Strong innovation program eg Christmas range, hosiery extension, outerwear and Bonds 100 anniversary range

Berlei sales were slightly down (-2.7% to \$42.0 million) with core bra sales flat and underwear and hosiery sales down due to range rationalisation.

Jockey sales stabilised (-0.2% to \$26.7 million) with additional distribution opportunities being explored.

Explorer sales were up (+2.8% to \$17.7 million), driven by a strong performance in supermarket and DS channels.

Hosiery brands (eg Razzamatazz) were down (-29.2% to \$22.2 million), driven by category and competitive dynamics as well as the launch of Bonds Tights.

Other brands (eg Rio and Holeproof) continued to decline in DDS due to increased competition, range rationalisation and customer specific issues, down 22.0% overall.

From a channel perspective, retail sales were up 44.5%, driven by strong comp growth across the network of 20% and store openings.

Store rollout opportunities continue and 18 new stores were opened in F15 including Bondi Junction and Macquarie, with Chadstone relocated and expanded.

Wholesale sales were down 5.7% overall, with the DDS channel significantly down primarily due to trade destocking, customer system implementation issues and resulting declines in stock availability. The DS channel was marginally down with mixed account performance. Supermarket sales were in growth overall with increased activity particularly in basic underwear and socks.

In terms of earnings, F15 EBIT was marginally down (-1.8%), with a significant decline in the first half due mainly to a decline in wholesale gross margins. However, EBIT in the second half was up 33% versus PCP as a result of improved wholesale and retail contribution. The retail channel contribution doubled in F15 due to sales growth, improved merchandising and gross margin, maturing store operations and increased leverage of network overhead.

#### F15 key strategic and operational highlights

- 18 new stores opened (taking total number to 79)
- Retail format updated to improve stock density, mix and in store navigation and communication, and improvements made to online presentation and functionality
- First whole of brand and complete product range launch in years to celebrate the Bonds 100 anniversary, with Iggy Azalea as the new Bonds ambassador
- New Bonds Sport range developed for new Myer concession to be launched from November 2015
- Berlei International joint venture with Serena Williams as the global brand ambassador
- Continued improvements in end-to-end supply chain:
  - Reduced SKUs, simplified supplier base, lower FOB product costs and improved DIFOT
  - Faster seasonal development calendar and manufacturing lead times
  - Inventory levels reduced despite significant upward pressure from the inflationary impact of currency and retail growth



## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### Sheridan

	F15 \$M	F14 \$M	CHANGE %
Sales	191.3	169.7	12.8
EBIT (pre significant items)	13.9	12.8	9.2
EBIT (reported) <sup>1</sup>	(21.1)	12.3	n.m.

1 Reported EBIT includes 1H impairment of goodwill in F15

#### Nature of operations

The Sheridan group offers a variety of bedding products, towels, and other categories primarily under the Sheridan brand.

Sheridan is a premium brand offering luxury bed linen, pillows, quilts, towels, bedding accessories and other lifestyle categories including babywear and loungewear.

Sheridan's primary channel to market is retail (75% of sales), with the balance being wholesale. The direct to consumer channel includes Sheridan branded boutiques, Sheridan Factory Outlet ('SFO') stores, DS concessions and online stores.

The majority of sales are in Australia (over 80%), with significant sales also in the UK, New Zealand and Asia.

In terms of categories, bed linen accounts for the majority of sales, followed by towels, quilts, pillows and accessories with the new babywear, loungewear and other lifestyle products being the smallest categories.

#### Strategic priorities

The Sheridan group's strategic priorities are as follows:

- Invest in Sheridan brand
- Expand in adjacent lifestyle categories
- Maximise retail potential and move wholesale to concession where possible
- Restructure and turnaround the UK business
- Improve Australian business profitability

#### F15 results performance

Sheridan's growth was driven by a strong Australian retail performance with retail sales up 19.4%:

- Boutique comp sales up due to improved execution and growth in existing and new categories
- SFO comp sales up driven by clearance and improved execution
- Concession sales in growth overall with Australian sales up partially offset by UK underperformance

New lifestyle categories contributed to sales growth, with core linen and towels remaining in growth. The wholesale channel was down 3.2% overall, with declines in the UK business.

In terms of earnings, EBIT was up 9.2%, with Australian sales and earnings significantly up in F15.

UK earnings were materially down due to challenging market conditions and unprofitable prior period growth initiatives, compounded by an IT transition.

While Sheridan will continue to pursue growth opportunities, management will increase the focus on improving return on sales through a range of initiatives to improve the profitability of Australia and turn around its loss making UK operations:

Key initiatives to increase profitability of Australian operations include:

- Consolidate Sheridan's warehousing and logistics operations from Trade Coast (Queensland) into the Underwear distribution centre in Truganina (Victoria)
- Review product sourcing arrangements with Li & Fung to optimise agency versus direct sourcing mix going forward
- Simplify wholesale business and move to concession where possible
- Increase leverage of shared services to reduce overhead and administration costs

Key initiatives of the UK turnaround plan are:

- Reshape distribution footprint to focus on most profitable concessions and online
- Improve range management, merchandise planning and gross margins
- Reduce overhead and administration costs

Some restructuring costs may be incurred but these are currently not expected to be significant.

#### F15 key strategic and operational highlights

- Sheridan continues to be the number 1 home furnishings brand (market share dollars, measured by Roy Morgan reports)
- Strong comp sales performance in Australia underpinned by improved execution
- Sheridan Kids and Baby concession launch at David Jones:
  - Extended partnership with David Jones for 35 new Kids and Baby concessions, providing additional trading space from October 2015
  - Will accelerate consumer awareness of Sheridan's new Kids and Baby range

## Tontine and Dunlop Flooring

	F15 \$M	F14 \$M	CHANGE %
Sales	89.7	90.4	(0.8)
EBIT (pre significant items)	5.9	5.0	16.3
EBIT (reported) <sup>1</sup>	(19.7)	3.7	n.m.

1 Reported EBIT includes impairment of brand names, goodwill and assets in F15

### Nature of operations

Tontine (52% of sales) is a value bedding accessories business, supplying a combination of locally manufactured and imported pillows, quilts and other bedding accessories.

Key brands comprise:

- Tontine (the market leader in pillows and also supplying bedding accessories such as quilts and mattress protectors)
- Dunlopillo (premium latex and memory foam pillows)
- Fairydown (the leading bedding accessories brand in New Zealand)
- Crestell (acquired in June 2015, including the Crestell, Biozone, Dream-a-way and Natures Dream brands)

The business has a manufacturing site in Campbellfield, Victoria and products are distributed primarily through DDS and supermarket channels.

Dunlop Flooring (48% of sales) is a carpet underlay and flooring business, operating under two brands:

- Dunlop Flooring (market leader in foam carpet and timber underlay)
- Heartridg (new timber, laminate and vinyl plank flooring range)

The business has two manufacturing sites: Sunshine, Victoria and Wetherill Park, New South Wales, and the majority of sales are to major flooring retailers.

The vast majority of Tontine and Dunlop Flooring sales are within Australia.

### Strategic priorities

The Tontine and Dunlop Flooring group's strategic priorities are as follows:

- Invest in bedding accessories category
- Improve Tontine profitability
- Optimise carpet underlay business
- Expand into hard flooring category
- Maintain lowest cost manufacturing position

### F15 results performance

Sales were broadly flat overall (down \$0.7 million or 0.8%):

- Tontine sales were down due to DDS underperformance
- Dunlop Flooring sales were up due to market growth and the new hard flooring product launch

EBIT (pre significant items) was up \$0.9 million or 16.3%:

- Tontine earnings were marginally up, with sales decline and margin pressure offset by cost savings – a growth and profit improvement plan is being executed
- Dunlop Flooring result was up due to growth, improved margins and cost control

### F15 key strategic and operational highlights

- Creation of Tontine and Dunlop Flooring operating group, leveraging local manufacturing and commercial management capabilities across the group
- Successful launch of Heartridg branded timber, laminate and vinyl flooring product range, with preferred supplier status in six major retailers to date
- Bolt-on acquisition of Crestell, reinforcing Tontine's relationships with key customers and providing additional manufacturing volume and efficiencies

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### Strategy

The Company has clear strategic priorities to achieve earnings growth, which are set out below along with key areas of focus:

#### 1. Be a house of leading brands

At the core of the business is the Company's ability to grow and manage brands.

- lead in creative design, product innovation and quality
- invest in engaging marketing
- expand into adjacent product categories

#### 2. Reshape and expand distribution

While the wholesale business has been challenged, there is opportunity to improve performance in this channel and expand distribution via a well networked retail channel and a broader international footprint.

- reshape and grow wholesale channels
- maximise retail potential (online, stores and concession)
- progressively grow international distribution of Bonds, Berlei and Sheridan

#### 3. Develop a sustainable Lean global supply chain

The Company's sourcing and supply chain represents a key competitive advantage which is maintained through progressive application of Lean operating principles and an ongoing year on year program to simplify the end-to-end supply chain and reduce cost.

- reduce product and logistics costs
- improve development and manufacturing lead times, and increase forecast accuracy and service levels
- enhance sustainability and ethical trading outcomes

### Material business risks

The material business risks that may impact the achievement of the Company's strategy and its future financial prospects are summarised below, together with key actions/plans to mitigate these risks. The risks noted, which are not in any particular order, do not include generic risks which affect all companies (eg execution risk, key person risk) or macro risks (eg changes in economic growth, consumer sentiment or business confidence) which could also have a material impact on the future performance of the Company.

RISK	NATURE OF RISK	ACTIONS/PLANS TO MITIGATE RISK
FX depreciation	<ul style="list-style-type: none"> <li>▪ Majority of COGS is foreign currency denominated so currency depreciation increases local currency product costs and places pressure on gross margins</li> </ul>	<ul style="list-style-type: none"> <li>▪ Treasury policy requires hedging of up to 80% of expected purchases up to 12 months in advance</li> <li>▪ Currency hedging locks in seasonal and basics margins and allows time to take action to address margin pressures</li> <li>▪ Retail channel offers greater ability to influence pricing</li> </ul>
Wholesale sales and margin	<ul style="list-style-type: none"> <li>▪ Reduction in sales (ie de-ranging or de-listing) and/or margin compression</li> <li>▪ Key wholesale customers growing proportion of private label sales</li> <li>▪ Lower equity portfolio brands at greatest risk</li> <li>▪ Higher major customer concentration following divestments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increased senior management engagement on key accounts and partner with customers to improve retailer stock availability, shopping experience and overall category performance</li> <li>▪ Manage customer pricing and economics, including trade spend and promotional effectiveness</li> <li>▪ Invest in key brands (including design, innovation and marketing)</li> <li>▪ Develop adjacent category and segment opportunities</li> <li>▪ Explore further concession opportunities</li> <li>▪ Explore international opportunities</li> </ul>
Retail performance	<ul style="list-style-type: none"> <li>▪ Retail stores fail to perform at an acceptable level to cover fixed costs of operation and provide the required rate of return on invested capital</li> <li>▪ Lost growth opportunities due to changes in availability of suitable retail sites</li> </ul>	<ul style="list-style-type: none"> <li>▪ Disciplined site selection</li> <li>▪ Robust business case for each store</li> <li>▪ Recruitment and retention of experienced retail talent</li> <li>▪ Strong systems and processes to monitor and manage performance of each retail store</li> <li>▪ Lease terms limited to five years</li> </ul>
Working capital position	<ul style="list-style-type: none"> <li>▪ Increases in working capital due to inflationary impact of currency depreciation, growth initiatives, sales volatility and forecast inaccuracy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ongoing review of sales and operations planning process including controls over stock purchasing</li> <li>▪ Disciplined clearance and promotional activity</li> <li>▪ Focus on supplier terms and debtor collections</li> </ul>

RISK	NATURE OF RISK	ACTIONS/PLANS TO MITIGATE RISK
Product cost inflation and quality	<ul style="list-style-type: none"> <li>▪ Increase in input prices</li> <li>▪ Increased costs not readily and/or fully passed on</li> <li>▪ A product quality issue could adversely impact brand reputation and brand equity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Product engineering and process for engaging suppliers to identify mutual cost reduction opportunities</li> <li>▪ Lean manufacturing programs with targeted suppliers</li> <li>▪ Other alternatives to address margin pressures (eg pricing, trade spend, product mix, product design, CODB)</li> <li>▪ Quality controls are embedded in the organisation from material sourcing and product design through to manufacturing and distribution, including quality control checks in country of origin and on arrival to DCs</li> </ul>
CODB escalation	<ul style="list-style-type: none"> <li>▪ Many costs are fixed or semi-fixed and subject to inflationary pressures</li> <li>▪ Profitability can be eroded if costs are not managed in line with growth in the top-line and gross margin</li> </ul>	<ul style="list-style-type: none"> <li>▪ Extensive cost reduction program and strong cost control culture</li> <li>▪ Rigorous target setting process and controls</li> <li>▪ Monthly financial performance reviews</li> <li>▪ Rollout of Lean disciplines</li> </ul>
Sustainability	<ul style="list-style-type: none"> <li>▪ Supplier practices may result in unethical labour or workplace practices in the factories from which the Company sources products, that could adversely impact Company reputation and brand equity</li> <li>▪ Supplier or internal practices may have a negative impact on the environment, which in turn could adversely impact Company reputation and brand equity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Supplier and Manufacturer Code of Conduct in place covering social, environmental and ethical business practices</li> <li>▪ Policies and framework to carefully screen and qualify new suppliers</li> <li>▪ Supplier audit program (internal and external) to monitor and assess ongoing compliance with the code of conduct</li> <li>▪ Active Ethical Trading Initiative (ETI) membership and signatory to the Bangladesh Accord on Fire and Building Safety (notwithstanding that the Company does not currently source from Bangladesh)</li> <li>▪ Corporate Social Responsibility program in place</li> </ul>
Business continuity (including reliability of supply)	<ul style="list-style-type: none"> <li>▪ Sales and profit could be significantly impacted by a major disruption to critical points in the Company's end-to-end supply chain or IT systems</li> </ul>	<ul style="list-style-type: none"> <li>▪ Diversification of suppliers to limit monopoly supply risk</li> <li>▪ Where high supplier concentration exists, development of plans for alternative sources of supply</li> <li>▪ Disciplined supplier selection</li> <li>▪ Effective sales and operational planning and quality control and assurance processes</li> <li>▪ Disaster recovery plans in place for key processes and IT systems</li> <li>▪ Insurance cover</li> </ul>

## Future Financial Prospects

### General

Sales outcomes will be largely dependent upon market conditions and company specific sales performance, which will be influenced by implementation of the Company's strategy over time, including improving wholesale channel performance and the success of the retail expansion. More specifically, key influences by Operating Group are as follows:

#### *Underwear*

- Wholesale sales outcomes will depend upon the level of distribution achieved, especially with major retail customers, and the relative shelf space allocated to the Company's products compared with private label and competitor products. This, in turn, will be impacted by continued investment in brands (eg innovation, design, marketing) and category expansion (eg Bonds Sport)
- Direct-to-consumer sales outcomes will depend upon the performance of the Company's online stores and, in the case of Bonds, the rate of retail store rollout and performance
- Hosiery and other brands (eg Holeproof, Rio) are a decreasing proportion of Underwear's sales. Nonetheless, should they lose further distribution over time, that would negatively impact overall sales outcomes

#### *Sheridan*

- Sales outcomes will depend upon the performance of the Company's store network and concession partners, as well as the rate of concession and retail store rollout, and the success of continued innovation and category expansion
- Wholesale sales outcomes will depend upon the level of distribution achieved, especially with major retail customers
- Sales and earnings outcomes will depend upon delivery on initiatives to improve profitability in Australia and turnaround of the UK performance

#### *Tontine and Dunlop Flooring*

- Sales outcomes will depend upon the level of distribution achieved, particularly within the DDS channel for Tontine including the relative shelf space allocated to Tontine relative to that for private label
- The level of new home builds and renovations is a key driver of sales for Dunlop Flooring, as well as the success of the new hard flooring range

Gross margins will be subject to a variety of forces, most notably currency depreciation, any duty benefits resulting from the China Free Trade Agreement, pricing and promotional activity, and changes in business mix including a progressive increase in retail sales.

CODB is expected to increase over time due to a combination of inflationary pressures and increased investment (eg retail rollout) being greater than available cost reduction opportunities or productivity benefits, despite the level of restructuring that continues to take place.

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

Earnings outcomes will ultimately be dependent upon the relative impacts of the above variables. It is noted that the recent devaluation of the Australian dollar could potentially have a material impact on earnings and working capital in F16 if unmitigated, with expected average F16 AUD:USD rates of c.0.85 in the first half and c.0.76 in the second half (based on existing forward cover plus forward spot rates for uncovered forecast requirements at 24 August 2015), versus c.0.90 in F15.

To address these residual margin pressures, the Company is implementing further price increases, working with suppliers through Lean process improvements to capture further cost reduction opportunities, as well as considering other elements over which it has some control (eg trade spend, product mix, product design and CODB). It is inherently difficult to predict the net impact at this stage, as it will also depend on, amongst other things, future currency hedged rates, competitive environment, market pricing and consumer response.

Cash flow will depend on earnings outcomes and the impacts of net movements in working capital and capital expenditure relative to depreciation. The Company's objective, subject to the extent of movement in sales, is to maintain high rates of annual cash conversion and for capital expenditure to be broadly similar to depreciation over time.

The above variables do not directly incorporate the impact of any acquisitions or divestments. The impact of such transactions will depend on their scale and nature, the price paid or received, how acquisitions are funded and their subsequent performance.

### F16 trading update and outlook

The Company expects a continuation of challenging and variable market conditions

1H16 sales for the 8 weeks to date are up 8% versus PCP, but 1H16 results will largely be dependent on November and December trading which are significant months.

Inventory levels are expected to be higher at 31 December 2015 due to FX depreciation, a relatively early Chinese New Year which impacts shipment timing, and sales seasonality and growth.

For the continuing business before significant items, F16 EBIT is expected to be up on PCP (\$64.2 million).

FX headwinds continue and may impact future earnings, however the Company has plans in place to mitigate the dollar impact of FX depreciation on margins through a combination of sourcing benefits, mix improvement, CODB reduction and price increases.

It is the Board's current intention to resume dividends in relation to the 1H16 result, subject to financial position and outlook at the time with a target dividend payout ratio of at least 50% of NPAT.

# CORPORATE GOVERNANCE STATEMENT

Pacific Brands' directors and management are committed to conducting the Company's business ethically and in accordance with high standards of corporate governance. Good corporate governance structures encourage companies to create value for shareholders through sensible risk taking, but provide accountability and control systems commensurate with the risks involved.

This statement describes Pacific Brands' approach to corporate governance, is accurate and up to date as at 25 August 2015 and has been approved by the Board. The Board believes that the Company's policies and practices comply in all substantial respects with the Australian Securities Exchange ('ASX') Corporate Governance Council's Corporate Governance Principles and Recommendations (3<sup>rd</sup> edition) ('ASX Corporate Governance Principles'). Unless indicated otherwise in the discussion below, these practices have been in place for the entire year.

Copies of the main corporate governance policies adopted by the Company can be found in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au).

## 1. ROLE AND RESPONSIBILITIES OF THE BOARD

The Board is committed to investing in the Company's brands and people, maximising operational and financial performance and generating shareholder value.

In conducting business in line with these objectives, the Board is responsible for ensuring that the Company is properly managed to protect and enhance shareholder interests, and that the Company, its directors, officers and employees operate in an appropriate environment of corporate governance. The Board Charter can be found in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au). The Board has ultimate responsibility for establishing policies regarding the business and affairs of the Company for the benefit of its shareholders and other stakeholders. The Board's key responsibilities include:

- appointing and reviewing the performance of the Chief Executive Officer
- ensuring executive and Board succession planning
- approving the Company's strategic direction
- approving annual budgets and targets
- evaluating the performance of the Company against its strategic plan, budgets and targets
- determining the Company's capital structure
- ensuring the establishment of a risk management and compliance framework and monitoring and reviewing its effectiveness
- approving significant acquisitions or divestments
- overseeing relations with shareholders
- approving accounting policies and annual financial statements
- ensuring appropriate senior executive remuneration

The Board delegates management of the Company's resources to senior management, under the leadership of the Chief Executive Officer, to deliver the strategic direction and operational goals agreed between senior management and the Board. A key function of the Board is to monitor the performance of senior management in this function. Annual performance evaluations of senior management occur in accordance with the process outlined below and further described in the Remuneration Report.

Management provides the Board with information in a form, timeframe and quality that enables the Board to discharge its duties effectively. Specifically, the Chief Executive Officer provides reports on the Company's strategic initiatives, organisational matters, operational performance, business development opportunities and employee safety at each Board meeting. The Chief Financial Officer provides reports on the Company's financial performance and other relevant matters such as the Company's net debt position, foreign exchange hedging and risk management issues.

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. Each Director has direct access to the Company Secretary. The Company Secretary is responsible for coordination of all Board business, including agendas, Board papers and minutes, advising the Board and its committees on governance matters, monitoring compliance with Board and committee policies and procedures, communication with regulatory bodies and the ASX, and statutory and other filings.

## 2. BOARD APPOINTMENT, COMPOSITION AND TENURE

The Board is currently made up of seven directors, being the Company's one executive director and six independent non-executive directors. Details of the directors as at the date of this Annual Report, including their terms of office, qualifications and experience and independence status, are set out on page 4 of the Annual Report.

It is the Board's policy that the Board should be comprised of a majority of independent non-executive directors. That is, the majority of directors should be free from any business or other relationship that could materially compromise their independent judgement. As an additional safeguard in preserving independence, the policy provides that the office of Chairman should be held by an independent non-executive director. The Board considers a director to be independent where he or she is not, and was not within the last three years, been a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the director's ability to act independently and in the best interests of the Company and shareholders generally. The Board will consider the materiality of any given relationship on a case by case basis and has adopted materiality guidelines to assist it in this regard. Under the Board's materiality guidelines, the following interests are regarded as, prima facie, material:

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- a holding of 5% or more of the Company's shares
- an affiliation with a business which accounts for 5% or more of the revenue or expenses of the Company

However, ultimately the Board will make a qualitative assessment of any factors or considerations which may, or might reasonably be perceived to, materially interfere with the director's ability to act independently and in the best interests of the Company and shareholders generally. Directors are required to disclose promptly to the Board interests in contracts, other directorships or offices held, possible related party transactions and sales or purchases of the Company's shares. The Board reviews the independence of each director in light of interests disclosed to the Board from time to time and at least once a year.

The Board has determined that each of the six non-executive directors satisfy the Board's criteria for independence. The Company's Chairman held the role of Executive Chairman from 7 July 2014 (being the date of the former Chief Executive Officer's resignation) until 26 August 2014 (being the date D L Bortolussi was appointed Chief Executive Officer). Notwithstanding the fact that the Chairman was acting as Chief Executive Officer during this period, the Board at all times considered the Chairman to be independent on the basis that his executive role was temporary only, that he was not employed in an executive capacity by the Company and that he did not receive any additional remuneration for his services as Chief Executive Officer. He only received fees for his role as Chairman. It is also the Board's view that each director exercised their judgement and discharged their responsibilities in an unrestricted and independent manner throughout the 2015 financial year.

As the Chairman was acting Chief Executive Officer between 7 July 2014 and 26 August 2014, the Company did not comply with Recommendation 2.5 of the ASX Corporate Governance Principles for the entire reporting period, which provides that the Chairman of the Board should be an independent director and, in particular, should not be the same person as the Chief Executive Officer.

The Board considers that a diverse range of skills, experience, knowledge and backgrounds is required to govern the Company's business effectively. With the assistance of the Nomination Committee, the Board works to ensure that the Board's membership is optimal to meet the Company's needs. The Board is satisfied that the Board currently comprises directors with a broad range of experience having a proper understanding of the current and emerging issues facing the Company who can effectively review and challenge management's decisions. The diversity of the skills and experience possessed by the current Board is summarised in the following table:

EXPERIENCE AND SKILLS	NUMBER OF DIRECTORS POSSESSING THE RELEVANT EXPERIENCE OR SKILL
Retail and consumer industry	
▪ Marketing and brand management	5
▪ Product innovation and development	4
▪ Retail, online and wholesale sales	7
Strategy	
▪ Corporate and business unit strategy	7
▪ Domestic and international business development	7
▪ Mergers, acquisitions and alliances	7
Organisation	
▪ Human resources management	5
▪ Occupational health & safety, environment and risk management	5
▪ Remuneration practices	5
Operations	
▪ Chief Executive Officer, Chief Operating Officer or General Management experience	6
▪ Information technology and business processes	4
▪ Sourcing and supply chain management	5
Finance	
▪ Accounting, finance and banking	6
▪ Chief Financial Officer or Commercial experience	2
▪ Equity and debt capital markets	4
Governance	
▪ Governance and compliance	6

In making recommendations to the Board regarding the appointment of directors, the Nomination Committee will assess the appropriate mix of skills, experience and expertise required by the Board and the extent to which the required skills and experience are represented on the Board. The committee also takes account of succession plans for the directors generally and qualitative factors such as diversity and cultural fit. Where a potential 'gap' is identified in the backgrounds, experiences or skill-sets that are considered desirable or necessary for the Board's continued effectiveness, this information is used to inform the selection of new director candidates.

Nominations for appointment are approved by the Board as a whole. The identification of potential director candidates may be assisted by the use of external search organisations as appropriate. Appropriate background and other checks are undertaken by, or on behalf of, the Nomination Committee before a candidate is recommended to the full Board for consideration. Detailed background information in relation to a potential candidate is provided to all directors, prior to any decision being made. A copy of the Company's Nomination Committee Charter, which includes the process for the selection and appointment of directors, can be found in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au).

New directors are provided with a letter of appointment, setting out the terms of their appointment, including their powers, rights and obligations. An induction program is provided for new members of the Board. This includes meetings with senior executives, site visits, independent meetings with both the Company's internal and external auditors, provision of relevant corporate governance materials and policies and discussions with the Chairman and other directors.

Under the Company's Constitution and the ASX Listing Rules, all directors other than the Chief Executive Officer are subject to shareholder re-election every three years. Board support for directors retiring and seeking re-election at an Annual General Meeting is not automatic. In determining whether it will recommend that shareholders vote in favour of re-electing a director, the Board will have regard to any matters it considers relevant, including the director's performance evaluation and his or her tenure. The Company provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director in its Notice of Annual General Meeting. It is the Board's current policy that, in general, directors do not hold office beyond a maximum term of nine years. Details regarding the Board performance assessment process is outlined in section 5 of this statement.

The period of office held by each person who served as a director in the 2015 financial year is as follows:

	APPOINTED	PERIOD IN OFFICE	LAST ELECTED AT AN ANNUAL GENERAL MEETING
P H Bush (Chairman)	August 2010	5 years	24 October 2013
S T Goddard	May 2013	2 years 3 months	14 October 2014
K L Grant	February 2014	1 year 6 months	14 October 2014
J S King	September 2009	5 years 11 months	14 October 2014
H E C Nash	August 2013	2 years	24 October 2013
L B Nicholls AO	October 2013	1 year 10 months	14 October 2014
J C Pollaers	September 2012	1 year 10 months	Resigned 7 July 2014
D L Bortolussi	August 2014	1 year	Not applicable

Directors' shareholdings are shown on page 52 of the Annual Report.

### 3. BOARD PROCESSES

The Board currently schedules ten meetings per year. In addition, the Board meets whenever necessary to deal with specific matters requiring attention between the scheduled meetings. The table on page 23 of the Annual Report shows the number of Board meetings held in the 2015 financial year and the attendance of each director.

The agenda for meetings is prepared by the Company Secretary, in conjunction with the Chairman and the Chief Executive Officer, with periodic input from the Board. Comprehensive Board papers are distributed to directors in advance of scheduled meetings. Board meetings take place both at the Company's head office and at key operating sites to assist the Board in its understanding of operational issues.

The directors also spend time visiting representative retail operations of the Company and its customers to assist the Board in better understanding the strategies of its customers and competitors and the relative strength and positioning of the Company's key brands and own retail operations. A continuing education program is in place, which includes presentations and materials being provided to the Board by management and external experts on matters relevant to the role and responsibilities of directors.

Each director has the right of access to all relevant Company information and to the Company's senior management, external advisers and auditors. Directors may also seek independent professional advice at the Company's expense. Any director seeking such advice is required to make a formal request to the Chairman or the Board. Where the Chairman wishes to seek independent advice, he must make a formal request to the Chair of the Audit, Business Risk and Compliance Committee. Any advice so received must be made available to all other directors unless otherwise agreed. Pursuant to a deed executed by the Company and each director, a director also has the right to have access to all documents which have been presented to meetings of the Board or to any committee of the Board or otherwise made available to the director while in office. This right continues for a term of seven years after ceasing to be a director or such longer period as is necessary to determine relevant legal proceedings that commenced during that term.

### 4. BOARD COMMITTEES

There are presently three standing committees which assist the Board in the execution of its responsibilities, being the:

- Audit, Business Risk and Compliance Committee
- Nomination Committee
- Remuneration Committee

Any issues of corporate governance which are not dealt with specifically by one of these committees are the responsibility of the full Board.

Each committee operates under a specific charter, which can be found in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au).

Details of the committee members' qualifications are set out on page 4 of the Annual Report. Further details regarding the three committees are set out in the following table:



## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

	AUDIT, BUSINESS RISK AND COMPLIANCE COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
<b>Roles and responsibilities</b>	The committee's role is to assist the Board in the effective discharge of its responsibilities for financial reporting, the maintenance of a risk management framework and the relationship with the external and internal auditors.	The committee is responsible for assisting and advising the Board on matters relating to succession planning, recruitment and the appointment and remuneration of directors.	The committee is responsible for matters relating to succession planning, recruitment and the appointment and remuneration of the Chief Executive Officer and other senior executives and for the remuneration policy framework for all employees of the Company and overseeing the Company's Diversity Policy.
<b>Functions</b>	<ul style="list-style-type: none"> <li>▪ ensuring that processes are in place so that financial information provided to shareholders is accurate, complete and reliable in all material aspects</li> <li>▪ evaluating the processes in place to ensure that accounting records are properly maintained in accordance with statutory requirements</li> <li>▪ overseeing the relationship with the external auditor, auditor independence and the external audit function</li> <li>▪ reviewing the adequacy of the group's risk management framework including policies and procedures established by senior management to identify and manage areas of potential risk and to safeguard the assets of the Company</li> <li>▪ reviewing the scope of the internal audit program and the performance of internal audit</li> <li>▪ reviewing the reports of the internal auditor and overseeing management's implementation of internal audit recommendations</li> <li>▪ reviewing the scope and terms of the insurance program</li> <li>▪ reviewing the Company's social compliance policies and practices and observance of appropriate ethical standards</li> <li>▪ overseeing the Company's treasury function, including foreign exchange and interest rate hedging policies</li> <li>▪ reviewing the Company's exposure to fraud and corruption, including overseeing investigations of allegations of fraud, corruption or malfeasance</li> </ul>	<ul style="list-style-type: none"> <li>▪ reviewing and making recommendations to the Board regarding the appointment of non-executive directors</li> <li>▪ assessing Board composition, function and size (taking into consideration the skills, experience and expertise required and the extent to which they are represented on the Board and the requirements of the Company's Diversity Policy)</li> <li>▪ establishing processes for reviewing the performance of individual non-executive directors, the Board as a whole and the operation of Board committees</li> <li>▪ monitoring length of service and developing succession plans for the Board including the likely order of retirement by rotation of non-executive directors</li> <li>▪ making recommendations to the Board on non-executive director remuneration, including that of the Chairman</li> </ul>	<ul style="list-style-type: none"> <li>▪ assisting the Board in determining an appropriate remuneration framework and policies for all employees</li> <li>▪ overseeing the selection and appointment practices for senior executives of the Company</li> <li>▪ overseeing the development of succession planning in relation to the Chief Executive Officer and senior executives reporting to the Chief Executive Officer</li> <li>▪ making recommendations to the Board on the Chief Executive Officer's remuneration (including short and long term incentive plans)</li> <li>▪ reviewing and approving recommendations from the Chief Executive Officer on total levels of remuneration for senior executives reporting to the Chief Executive Officer (including short and long term incentive plans)</li> <li>▪ reviewing human resources and remuneration policies and practices for the group, as brought forward by management</li> <li>▪ reviewing and reporting to the Board on an annual basis, the relative proportion of women and men in the workforce at all levels of the Company, remuneration by gender and strategies to address any pay gap</li> <li>▪ reviewing and reporting to the Board, on an annual basis, on the effectiveness of the Company's Diversity Policy</li> <li>▪ engaging remuneration consultants and receiving any advice and/or recommendations from them with respect to the setting of executive remuneration</li> </ul>
<b>Members</b>	<ul style="list-style-type: none"> <li>▪ Stephen Goddard (Chair)</li> <li>▪ James King</li> <li>▪ Linda Bardo Nicholls AO</li> </ul>	<ul style="list-style-type: none"> <li>▪ Peter Bush (Chair)</li> <li>▪ James King</li> <li>▪ Helen Nash</li> </ul>	<ul style="list-style-type: none"> <li>▪ Helen Nash (Chair)</li> <li>▪ Kiera Grant</li> <li>▪ James King</li> <li>▪ Linda Bardo Nicholls AO</li> </ul>
<b>Composition requirements</b>	The committee must be chaired by an independent non-executive director and comprise at least three non-executive directors, all of whom must be independent and financially literate. The Chairman of the Board is not permitted to chair the committee.	The committee must be chaired by an independent non-executive director and comprise at least three non-executive directors, a majority of whom must be independent.	The committee must be chaired by an independent non-executive director and comprise at least three non-executive directors, a majority of whom must be independent.
<b>Consultation</b>	The Chief Executive Officer, Chief Financial Officer, Group Risk and Assurance Manager, and the external auditor have standing invitations to attend committee meetings. Other members of management may also attend by invitation. The committee has access to financial and legal advisers as it considers appropriate. The committee also meets with the external auditor in the absence of management whenever deemed appropriate, but no less than semi-annually to ensure the committee can be satisfied that the auditor has had the full cooperation of management in conducting the audit functions, and to give the auditor the opportunity to raise any matters of concern.	The committee may obtain information from and consult with external advisers, as it considers appropriate.	The Chief Executive Officer and Group General Manager, Human Resources each have a standing invitation to attend committee meetings. The committee may obtain information from, and consult with, management and external advisers, as it considers appropriate.

The table below shows the number of Board and committee meetings held in the 2015 financial year and the attendance of each member:

	BOARD		AUDIT, BUSINESS RISK AND COMPLIANCE COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	ATTENDED <sup>1</sup>	HELD <sup>2</sup>	ATTENDED <sup>1</sup>	HELD <sup>2</sup>	ATTENDED <sup>1</sup>	HELD <sup>2</sup>	ATTENDED <sup>1</sup>	HELD <sup>2</sup>
P H Bush	14	14	N/A	N/A	N/A	N/A	5	5
D L Bortolussi	14	14	N/A	N/A	N/A	N/A	N/A	N/A
S T Goddard	14	14	4	4	N/A	N/A	N/A	N/A
K L Grant	14	14	N/A	N/A	3	3	N/A	N/A
J S King	14	14	4	4	3	3	5	5
H E C Nash	14	14	N/A	N/A	3	3	5	5
L B Nicholls AO	14	14	4	4	3	3	N/A	N/A
J C Pollaers	Nil	Nil	N/A	N/A	N/A	N/A	N/A	N/A

<sup>1</sup> This column shows the number of meetings attended

<sup>2</sup> This column shows the number of meetings held during the period the director was a member of the Board or committee

## 5. REVIEW OF BOARD AND SENIOR EXECUTIVE PERFORMANCE

The performance of the Board is reviewed annually by the Board with the assistance of the Nomination Committee and periodically with the assistance of an external adviser. In the years that an externally facilitated review is not conducted, the Chairman interviews each director to obtain individual views on Board dynamics, director performance and feedback to improve good governance and Board performance. This process was conducted in May 2015 with the Chairman providing feedback to the Board in June 2015.

In addition, a review of each director's performance is also undertaken prior to a director standing for re-election. In the case of directors, other than the Chairman, the review is undertaken by the Chairman after consultation with the other directors. In the case of the Chairman, a non-executive director is delegated the task of reviewing the Chairman's performance.

A review of the performance of the Chief Executive Officer is led by the Chairman in consultation with the Board. The performance of all other senior executives is reviewed by the Chief Executive Officer and reported to, and discussed by, the Board. Performance reviews take place shortly before or just after the end of the financial year. Further details about the senior executive performance review process are contained in the Remuneration Report on page 39. Performance reviews for the Chief Executive Officer and each other senior executive took place either during the reporting period or shortly afterwards.

## 6. NON-EXECUTIVE AND EXECUTIVE REMUNERATION

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced non-executive and executive directors and senior management. Performance, duties and responsibilities, market comparison and independent advice are all considered as part of the remuneration process.

In accordance with principles of good corporate governance, non-executive directors do not receive any remuneration that is performance based, nor do they receive any other benefits such as retirement or termination benefits other than superannuation.

Full details of the remuneration paid to non-executive and executive directors and the Company's other senior executives in relation to the 2015 financial year, as well as the Board policy for determining the nature and amount of remuneration and the relationship between such policy and performance, are discussed in the Remuneration Report.

## 7. GOVERNANCE POLICIES

The Board has adopted corporate governance policies and practices designed to promote responsible management and conduct at Pacific Brands. The Board (together with management) regularly reviews these policies and practices to ensure the Company maintains or improves its corporate governance standards in a changing environment. A discussion of the Company's key governance policies is set out below.

### 7.1 Risk management

ASX Corporate Governance Principle 7 requires that listed companies should establish a sound system of risk oversight and management and periodically review the effectiveness of that framework. In meeting this principle, the Board and senior executives of the Company have implemented an enterprise wide risk management framework that enables the management, monitoring, oversight and reporting of business risks in a timely and efficient manner.

The enterprise wide risk management framework serves to:

- provide a formal framework and methodology for determining the Company's risk profile
- facilitate enterprise wide awareness and general adoption of a risk management culture when making business decisions
- ensure risks (strategic and operational) are formally and regularly assessed in the context of the Company's strategy
- provide the infrastructure and a management process to support ongoing review and monitoring of the status of risks, controls and management initiatives for improving risk management
- ensure clear accountabilities for risk management

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Company has a structured and systematic enterprise wide risk assessment process in place which comprises an annual risk identification and assessment of material business risks. These material business risks are documented in a risk control plan along with appropriate mitigation priorities and planned management actions. The Board and Audit, Business Risk and Compliance Committee oversee this plan. The Company continues to enhance consistency in, and improve the effectiveness of, its risk management practices across all the operating groups.

### Risk management oversight and reporting

The key functional responsibility for the risk management framework resides with the Group Risk and Assurance Manager, who reports to the Chief Financial Officer. The Group Risk and Assurance Manager is responsible for assisting corporate functions and operating groups to develop risk management processes and methodologies and advising and monitoring in relation to their ongoing implementation.

The Audit, Business Risk and Compliance Committee is charged with oversight of these processes. The committee monitors and reviews the Company's risk profile and the progress and performance of risk management strategies on an annual basis. The most recent review took place in June 2015 and no significant changes to the Company's risk management framework or policies were identified. The committee has adopted a written policy in relation to the Company's risk oversight and management practices and a copy of this Risk Oversight and Management Policy is available through the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au).

The Audit, Business Risk and Compliance Committee receives regular reports about business risks facing the Company and the strategies employed by management to mitigate these risks. In connection with the Company's half year and full year financial statements, the Board receives a declaration from the Chief Financial Officer and the Chief Executive Officer that, in their opinion, the Company's consolidated financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the Company's financial position and performance and that this opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. These declarations are based on attestations that cascade down through management and include sign off by the Group General Manager and General Manager, Commercial Finance of each operating group. In respect of the 2015 financial year (both half year and full year financial statements), the Audit, Business Risk and Compliance Committee received unqualified declarations from the Chief Financial Officer and the Chief Executive Officer, of the nature described above.

### Economic, environmental and social sustainability risks

Any material exposure to economic, environmental and social sustainability risks and how the Company manages those risks, are disclosed in the Operating and Financial Review (see material business risks section).

### Internal control framework

Internal controls refer to processes that are designed to address risks and to provide reasonable assurance that in pursuing its objectives Pacific Brands is complying with applicable laws and regulations and safeguarding company resources against loss, misuse and damage.

There is a broad platform of internal controls in place within Pacific Brands which underpin the integrity of the Company's financial reporting and risk management processes. These internal controls include people, policies and processes across the operating structure of the Company. Within the internal control environment, Pacific Brands has established comprehensive policies and practices designed to ensure:

- business transactions are properly authorised and executed in accordance with delegated authorities and limits
- financial exposures are controlled, including the use of hedging arrangements
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations
- the quality and integrity of personnel
- the ethical practices of its suppliers (see section 9 of this statement)
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see above)
- environmental regulation compliance (see section 11 of this statement)

The Company has also adopted a Code of Conduct which sets out the Company's commitment to maintaining a high level of integrity and ethical standards in all business practices. The Code of Conduct sets out for all directors, management, employees and contractors, the standards of behaviour expected of them, and the steps that should be taken in the event of uncertainty or a suspected breach by any party.

The Code of Conduct is discussed in more detail in section 7.3 of this statement.

### Internal audit

The internal audit function's role is to provide the Board and management with independent and objective assurance on the effectiveness of risk management, internal control and governance processes across the group. The internal audit function is headed by the Group Risk and Assurance Manager who is supported by the Company's Internal Audit Manager and a major accounting firm. The Group Risk and Assurance Manager and the lead internal audit partner have access to the Audit, Business Risk and Compliance Committee and its Chairman at all times.

The Company has an annual internal audit plan covering the financial year. The plan, which is reviewed and endorsed by the Audit, Business Risk and Compliance Committee and the Board on an annual basis, is specifically directed at reviewing controls in key risk areas that may have a material impact on the Company's operations, and at ensuring that appropriate management action is taken with respect to each identified risk.

#### External audit

The external auditor (KPMG) is appointed by the Board and approved by shareholders in accordance with the requirements of the Corporations Act 2001. The Audit, Business Risk and Compliance Committee is responsible for reviewing the terms of appointment of the external auditor and for making a recommendation to the Board regarding the appointment of the external auditor. The Audit, Business Risk and Compliance Committee has also adopted a policy on the provision of non-audit services and the rotation of external audit personnel. The auditor is prohibited from providing services which may compromise independence. A regime of approval limits is set out in the policy for the approval of non-audit services provided by the auditor. The policy also requires the partner managing the Company's audit to be rotated within five years from the date of appointment. The term of the partner currently managing the Company's audit commenced in respect of the 2012 financial year. A copy of this policy is also available on the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au).

The audit engagement partner of KPMG attends the Company's Annual General Meeting and is available to answer shareholder questions relevant to the audit and the preparation and content of the auditor's report.

### 7.2 Trading in shares by directors and employees

The Company has adopted guidelines for directors' and employees' dealings in the Company's shares.

Subject to the overriding restriction that persons may not deal in shares while they are in possession of material price-sensitive information, directors and employees may deal in shares without the need for approval during certain 'trading windows', being within 31 days from the day following release of the Company's half and full year financial results and the holding of the Company's Annual General Meeting.

Directors and employees are prohibited from dealing in the Company's shares during the period from close of business on 31 December each year until the day following the announcement of the Company's half year results and during the period from the close of business on 30 June each year until the day following the release of the Company's full year results (so called 'blackout periods').

Outside of these blackout periods, if not within a trading window, directors and employees must receive clearance from the person stated in the guidelines for any proposed dealing in shares.

Directors and employees may not deal in the Company's shares on a short term trading basis, except in circumstances of special hardship, with the Chairman's approval.

The Company's guidelines for dealing in securities prohibit any employee who has been granted performance rights or deferred shares in the Company pursuant to the terms of any of the Company's employee share plans from entering into a transaction to limit the economic risk of such performance rights or deferred shares, whether through a derivative, hedge or other similar arrangement. In addition, directors and employees are not permitted to deal in securities pursuant to a margin lending arrangement. Further details regarding the Company's policy on hedging is set out in the Remuneration Report on page 44.

A copy of the Company's Guidelines for Dealing in Securities is available in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au) and has been lodged with the ASX.

### 7.3 Ethical standards and Code of Conduct

The Board believes it is important to provide employees with a clear set of values that emphasise a culture of strong corporate governance, sound business practices and good ethical conduct.

#### Code of Conduct

The Company's Code of Conduct outlines the Company's expectations for acting responsibly and ethically in relation to the business conduct of directors, employees and contractors. In particular, the Code of Conduct requires employees and directors:

- to behave with integrity in all dealings with customers, shareholders, suppliers and all others with whom the Company deals
- to conduct business in line with the Company's values and behaviours and all relevant laws and regulations
- to be aware of, and comply with, relevant fair trading and trade practices laws in the jurisdictions in which the Company operates
- to act in the best interests of the Company when undertaking Company business and avoid conflicts of interest (whether perceived or real) including the receipt of improper personal benefits such as gifts or hospitality
- to protect any Company assets under their control and not use Company assets for personal purposes, without prior Company approval. This obligation includes ensuring that money is appropriately spent, financial records are complete and accurate and internal controls are complied with
- to be aware of, and comply with, the Company's delegated authorities and limits policy which outlines general principles as to how the Company expects its employees to behave when exercising their financial authority as well as specific limits at which level a financial activity can be approved
- to respect the privacy of others and comply with the Company's privacy policy
- not to disclose or use in any improper manner confidential Company information, including information about customers, agents or other business affairs

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- to be aware of, and comply with, the Company's Continuous Disclosure Policy to ensure that the market is kept fully informed of information which may have a material effect on the price or value of the Company's shares
- not to act in any way that could cause harm to the reputation or market position of the Company, either during or after their employment; this includes complying with the Company's safety, health and environment policies, and equal opportunity and harassment policies

The Code of Conduct contains procedures for reporting and investigating improper conduct and unethical practices, and the protection of whistleblowers. A copy of the Code of Conduct is available in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au).

### Donations

The Company does not make donations to political parties.

### Fraud and corruption

Implementing effective fraud and corruption controls is part of good governance and management practices. Such controls seek to minimise the risk, not only of financial loss, but also of damage to the Company's reputation and that of its Board, senior management and employees. Accordingly, as a reinforcement of the Company's Code of Conduct, the Company has developed a separate policy outlining the Company's approach to fraud and corruption. A key objective of this policy is to support and enable the right organisational culture for the proactive prevention of fraud and corruption. This policy is aligned to the Company's risk management framework and is supported by a detailed fraud risk assessment undertaken in respect of the Company's operations.

This policy aims to protect the Company's assets and reputation by:

- reinforcing senior management and Board commitment and responsibility for identifying fraudulent and corrupt activities and for establishing policies, controls and procedures for prevention and detection of these activities
- reinforcing the requirement for all staff and others to refrain from corrupt or fraudulent conduct and encourage the reporting of any instance of fraud or corrupt conduct
- providing a framework for the conduct of investigations to ensure all suspected fraudulent and corrupt activity is dealt with appropriately
- assigning responsibility for the development of controls to prevent and detect fraud

A copy of the Company's Fraud and Corruption Policy is available in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au).

### Whistleblowing

Employees are encouraged to bring to the attention of their manager, their human resources manager or members of senior management any behaviour or activity occurring in the business which they believe to be unlawful, inappropriate or inconsistent with the Company's Code of Conduct. In addition, the Company has established a freecall whistleblower telephone line to enable employees to report matters of concern on a confidential basis. The service, known as My Voice, is operated by an independent third party to ensure that calls can be made in total confidence. My Voice service operates in key jurisdictions in which the Company does business and is staffed by contractors fluent in the native language of the relevant workforce. Callers may also elect to remain anonymous. Any reported improper conduct will be investigated while protecting the confidentiality of the identity of the whistleblower and, depending on the nature of the issue, the matter will be reported to either the Remuneration Committee or the Audit, Business Risk and Compliance Committee.

## 8. CONTINUOUS DISCLOSURE AND KEEPING SHAREHOLDERS INFORMED

The Company is committed to keeping shareholders fully informed and to facilitating effective two way communication with investors, with the aim of allowing shareholders and other financial market participants to gain a greater understanding of the Company's business, governance, financial performance and prospects. The Company's commitment is embodied in the Company's Shareholder Communications Policy, a copy of which can be found in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au). To achieve its stated objectives, the Company has implemented the following procedures:

- shareholders can gain access to information about the Company, including media releases, key policies, annual reports and financial statements, and the terms of reference of the Company's committees through the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au) or by writing to the Company Secretary at the Company's registered office address
- all relevant announcements made to the market and any related information are posted on the Company's website as soon as they have been released to the ASX and New Zealand Stock Exchange ('NZX')
- the Company encourages full participation of shareholders at its Annual General Meeting to ensure a high level of accountability and discussion of the Company's strategy and performance. Shareholders are also invited, within the Company's Notice of Annual General Meeting, to submit written questions to either the Company or the Company's external auditor in relation to the external audit
- the Company hosts a webcast of its first half and full financial year results briefings in order to maximise shareholders participation

The Company provides shareholders with the option to receive communications from, and send communications to, the Company and the share registry electronically, for reasons of speed, convenience, cost and environmental considerations. Annual reports are provided electronically via the 'Investor Relations' section of the Company's website, under the 'Results and Reports' section, unless a shareholder elects to receive a printed copy. Announcements made by the Company to the ASX and NZX are also made available on the Investor Relations section of the Company's website, under the ASX/NZX Announcements section and on the ASX and NZX websites. Shareholders are able to access information relevant to their holding via the share registry website [www.computershare.com.au](http://www.computershare.com.au).

The Company has a Continuous Disclosure Policy which establishes procedures to ensure that directors and management are aware of, and fulfil, their obligations, in relation to the timely disclosure of material price-sensitive information. Information must not be selectively disclosed prior to being announced to the ASX and NZX. Directors and senior management must notify the Company Secretary as soon as they become aware of information that should be considered for release to the market. The Company Secretary is the person responsible for communication with the ASX and NZX. A copy of the Company's Continuous Disclosure Policy may be found in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au).

## 9. SOCIAL AND ETHICAL COMPLIANCE FOR SUPPLIERS

### 9.1 Social compliance

An effective and sustainable supply chain is integral to the Company's business model and supply partners are required to meet certain standards in relation to human rights, workplace safety, environmental impacts and ethical business practices. The Company chooses, promotes and develops relationships with suppliers who are aligned with its expectations of ethical and socially responsible behaviour.

The Company has for a number of years, invested in, and maintained, a robust and comprehensive program of auditing its supply chain for adherence to its ethical standards. The Company's ethical sourcing program is led by the Group Risk and Assurance Manager, whilst managed at a local level by the Regional Sourcing Compliance Manager. The Regional Sourcing Compliance Manager is supported by social compliance officers and third party specialised auditors are engaged when required. The Company's social compliance team is independent of the Company's operating businesses. The Group Risk and Assurance Manager provides regular reports to senior management and to the Board in relation to various measures of social compliance including supplier grading profiles for each operating group and the number of suppliers exited.

The Company's ethical sourcing standards are aligned to Ethical Trading Initiative ('ETI') base code and its principles of continuous improvement. The Company has been a member of the ETI since 2008 and is to date the only Australian company to join this international organisation. The ETI is a multi-stakeholder organisation focused on collaboration across companies, trade unions and non-government organisations. The objective is for members to collectively address the many complex and country dependant issues and provide support and guidance to each other on the actions companies can take to trade ethically.

The Company's Supplier and Manufacturer Code of Conduct covers nine base principles in relation to human rights which are aligned to the ETI base code as follows:

- employment is freely chosen
- freedom of association and the right to collective bargaining are respected
- working conditions are safe and hygienic
- child labour shall not be used
- living wages are paid
- working hours are not excessive
- no discrimination is practised
- regular employment is provided
- no harsh or inhumane treatment is allowed

The Company's ethical sourcing program starts with the engagement of a new supplier and continues throughout the Company's sourcing and ongoing supplier relationship management processes. The Company has full access to supplier facilities, factory workers and employee and safety records, as required under the Pacific Brands Supplier and Manufacturer Code of Conduct.

Where a direct supplier is new to the Company, the Company's social compliance team will conduct pre-audit screening based on information provided by the supplier and current third party audit reports. This pre-screening determines if a factory progresses to a formal audit conducted by the social compliance team or an independent third party auditor in order to determine whether the supplier meets the Company's compliance standards to be an approved supplier.

Post approval, the Company also regularly conducts audits (announced and unannounced) of its direct suppliers to determine ongoing compliance with its Supplier and Manufacturer Code of Conduct. Where non-compliance is found, the social compliance team works with the supplier to develop a corrective action plan which is monitored. Where a supplier is unwilling to achieve compliance, the Company may terminate the relevant supply contract. Where a supplier is unable to achieve compliance, the Company will work with that supplier, however, ultimately a range of sanctions including termination may apply if compliance cannot be achieved in critical areas.

The Company's risk and compliance framework enables it to review and manage its suppliers based on a risk profiling matrix. The majority of audits focus on medium and high risk factories and are carried out within a 12 month period. Regular factory follow-ups are scheduled based on the risk assessment level defined in the Company's formal audit process. This risk level is dependent on a number of factors such as, brand, nature of product, business volume, the factories' prior audit results and historically how the supplier has responded to any corrective action plans identified. A vendor scorecard is also applied that incorporates key social compliance criteria when evaluating key suppliers. This provides the Company with a holistic view of supplier performance.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Given the size and complexity of the Company's supply chain, there is a need to prioritise and focus the Company's efforts. The scope of the Company's supplier auditing program focuses mainly on significant direct finished product suppliers to the Company. The audit program generally does not directly extend to raw material producers and suppliers, component suppliers, certain agency arrangements or other second tier suppliers in the Company's supply chain. However, the Company's direct suppliers are made responsible for ensuring that second tier suppliers comply with the Company's Supplier and Manufacturer Code of Conduct. In addition, indirect or third party processes are relied on in such circumstances to ensure compliance with the Company's Supplier and Manufacturer Code of Conduct.

In addition to its compliance program and in order to drive sustainable change, the Company has established an ethical sourcing strategic plan with input from the ETI's secretariat and a non-government organisation. The strategic plan is dedicated to four key areas:

- improving awareness of workers' rights amongst workers themselves and factory management levels
- allocating resources towards initiatives that will reduce working hours and increase rest days without loss of income
- improving visibility and traceability in the Company's supply chain
- enhancing website disclosures and providing further information on our program

Further information on the Company's ethical sourcing program and activities can be found on the Company's website at [www.pacificbrands.com.au/ethical-sourcing](http://www.pacificbrands.com.au/ethical-sourcing).

### Health and safety

The Company takes its health and safety obligations extremely seriously and mandates regular audits of facilities with which it has a direct supplier relationship. The Company's health and safety policies are applied uniformly in all jurisdictions in which the Company sources its products. The Company is also a signatory to the Bangladesh Accord and is committed to driving safe working conditions in the country notwithstanding that the Company does not currently source from Bangladesh.

### Uzbekistan cotton

The Company is committed to ensuring that child workers are not used anywhere in its supply chain and that employment is freely chosen. An area of concern for the Company is reports of forced child and adult labour being used in cotton cultivation in Uzbekistan. Although the Company does not have any direct business relationship with cotton producers, it seeks to avoid the use of Uzbekistan cotton. The Company has requested all of its suppliers to commit to avoid sourcing cotton from Uzbekistan in relation to the manufacture of any of the Company's products, until such time as the practice of using forced and underage labour ceases.

### Sandblasting

The Company has implemented a policy with respect to sandblasting, which bans the use of sandblasting in the manufacture or finishing of the Company's products. Suppliers must provide the Company with an assurance that this ban is being enforced and the Company monitors its suppliers to ensure ongoing compliance with the requirement.

### Animal welfare

The Company is committed to ensuring the highest standards of animal welfare are adhered to in its supply chain. Where animal products are used, suppliers are expected to treat animals in a humane manner which includes provision of appropriate comfort, shelter and freedom from distress or hunger.

Concerns have also been raised about angora fibre production, specifically in relation to the mistreatment of rabbits in angora farms. The Company has banned the use of rabbit angora fibre in all of its products to prevent the possibility of any rabbit being subject to distress caused by live-plucking or inappropriate standards of care.

## 9.2 Ethical business practices

In managing its suppliers, the Company endeavours to act professionally and ethically and expects its suppliers to abide by all local legal requirements and not to engage in any form of fraud or corruption. Suppliers are expected to notify the Company as soon as any form of conflict of interest becomes apparent and must not offer gifts when engaging with the Company's employees in order to receive benefits.

## 9.3 Environmental practices

The Company requires its suppliers to meet all legal obligations in relation to environmental performance. This includes:

- establishing objectives, targets and key performance indicators that strive for continuous improvement in their environmental performance
- maintaining management systems to plan, document, measure, monitor and regularly review their environmental performance
- identifying and assessing the environmental hazards which arise from their activities, products and services, and effectively managing these risks by applying best practice principles to the prevention of pollution

## 10. HEALTH AND SAFETY

The Company values a healthy and safe workplace, which stimulates and positively supports people to achieve outcomes in a safe manner, thereby contributing to operational effectiveness and business sustainability. The Company has a safety health management system in place which is certified compliant with AS/NZS 4801: Occupational Health and Safety Management Systems, for its manufacturing and supply chain sites.

The Company's safety performance is reported regularly to the Board to assist the Board in monitoring compliance with the Company's policy and the relevant regulatory requirements.

## 11. ENVIRONMENT

The Company is committed to doing business in an environmentally responsible manner and identifying environmental risks that may arise out of its operations.

The Company's operations are subject to various environmental laws and regulations. These laws and regulations control the use of land, the erection of buildings and structures on land, the emission of substances to water, land and atmosphere, the emission of noise and odours, the treatment and disposal of waste, and the investigation and remediation of soil and groundwater contamination.

The Company has policies and procedures in place to address its obligations under various environmental regulations. In particular, it has developed a management system to enable identification and assessment of environmental hazards which arise from its activities. The management system is certified compliant with ISO 14001: Environmental Management Systems, for its manufacturing and supply chain sites.

There were no environmental prosecutions in relation to the Company's operations during the 2015 financial year.

Key programs in place to help reduce the environmental impact of the Company's operations are discussed on page 6 of the Annual Report.

## 12. DIVERSITY

The Company recognises the value of attracting and retaining employees with different knowledge, abilities and experience and is committed to creating a working environment that is fair and flexible, promotes personal and professional growth, and benefits from the capabilities of its diverse workforce. The Company recognises that diversity in the workforce contributes to business success and benefits the Company's employees, customers, consumers and shareholders. The Company's aim is to ensure that its business policies, procedures and behaviours promote diversity and create an environment where individual differences are valued.

Diversity recognises and values the contribution of people with differences in capabilities and perspectives. The Company has developed a formal Diversity Policy, a copy of which is available in the corporate governance section of the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au). The policy recognises that diversity encompasses gender, age, experience, education, ethnicity, religious and cultural backgrounds as well as other dimensions such as lifestyle and family responsibilities. At Pacific Brands, employees from different cultures and religions are welcomed and valued. Consistent with the Company's Diversity Policy, the Company is committed to:

- a workplace which is free from discrimination, harassment, bullying, victimisation and vilification
- treating employees fairly and with respect
- a workplace culture that is inclusive and embraces individual differences
- equal employment opportunities based on ability, performance and potential
- awareness in all staff of their rights and responsibilities with regard to fairness, equity and respect for all aspects of diversity
- flexible work practices and policies to support employees and their changing needs
- attraction, retention and development of a diverse range of talented, energetic and committed people

Pursuant to the Company's Diversity Policy, management has developed measurable objectives in relation to gender diversity, with the aim of maintaining the relatively high level of participation of women throughout the organisation. The objectives have been approved by the Board and are designed to encourage and enable diversity rather than forcing it by setting quotas, which are viewed by the Board as unproductive given the Company's existing high levels of gender diversity. These measurable objectives have applied for the whole year. The measurable objectives, and the Company's progress towards achieving those objectives, are outlined in the following table:

NO.	BUSINESS ACTIVITY	OBJECTIVE	STRATEGIES	TARGET DELIVERY DATE	PROGRESS IN MEETING OBJECTIVES
1	Recruitment, selection and promotion	<ul style="list-style-type: none"> <li>▪ Improve gender diversity in areas that are traditionally under-represented</li> </ul>	<ul style="list-style-type: none"> <li>▪ Maintain the existing 50/50 gender balance in senior management positions (those positions either in the executive leadership team ('ELT') or reporting directly to the ELT), and investigate areas that are 'traditionally under-represented' to ensure gender balance is consistent across all areas of the business</li> </ul>	Ongoing	<ul style="list-style-type: none"> <li>▪ Representation of women in senior management positions is stable</li> <li>▪ The Company continues to look at promotional opportunities for women in the recruitment process</li> </ul>



## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

NO.	BUSINESS ACTIVITY	OBJECTIVE	STRATEGIES	TARGET DELIVERY DATE	PROGRESS IN MEETING OBJECTIVES
2	Remuneration	<ul style="list-style-type: none"> <li>Remuneration equity across genders</li> </ul>	<ul style="list-style-type: none"> <li>Within the annual remuneration cycle, review the gender remuneration parity across all key roles within the business and implement action plans to address any areas of concern</li> </ul>	Ongoing	<ul style="list-style-type: none"> <li>This review of gender remuneration is ongoing, review taking place at the time of every remuneration review cycle</li> </ul>
3	Career development and performance	<ul style="list-style-type: none"> <li>Gender diversity in career development programs and talent management</li> </ul>	<ul style="list-style-type: none"> <li>Career development programs are in place to ensure participation is gender diverse and that the programs are structured to encourage participation by both men and women</li> <li>Talent management processes are expanded across job grades 1-12 to ensure identification of high potential female leaders</li> </ul>	Ongoing	<ul style="list-style-type: none"> <li>Group career development programs have 54% participation by women</li> </ul>
4	Flexible working arrangements	<ul style="list-style-type: none"> <li>Workplace policies encourage and enable gender diversity through flexible working arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Consult with employee groups to identify further opportunities for flexible arrangements to be implemented across the Company</li> </ul>	Ongoing	<ul style="list-style-type: none"> <li>The Company has maintained the participation rate of employees who take up flexible work arrangements. These arrangements are available to all employees</li> </ul>

Senior management measures and reviews diversity across the organisation and reports to the Remuneration Committee on progress in achieving diversity within the Company.

To achieve a diverse and inclusive environment, the Company has in place various programs, policies and practices, including the following:

- a recruitment and selection process which identifies candidates with the most suitable knowledge, skills, experience and personal values for the relevant role and which recognises the value of recruiting, selecting and promoting employees with different backgrounds, knowledge, experiences, perspectives and beliefs
- a role grading and remuneration review process which actively considers equity in both grading and remuneration
- annual talent and succession planning reviews which have the objective of identifying high performing and high potential individuals across the organisation. Talented individuals are identified based on their performance and potential and operating group reviews ensure that talent and succession decisions are equitable, consistent and aligned with the Company's diversity principles
- all new employees are required to attend respect in the workplace training and this is followed by a refresher session every two years. This training raises awareness and encourages behaviour that supports a work environment free from discrimination and harassment
- a flexible working arrangements policy which recognises the needs of individuals to balance family and personal lives with work. The Company will consider applications for flexible working arrangements on a case by case basis, considering the merit of the proposed arrangement, personal circumstances of the employee, the nature of the employment and the impact on the respective business area
- policies covering paid parental leave and flexible working arrangements

Gender equality at all levels of the organisation is a key component of the Company's diversity strategy. At the end of the 2015 financial year, 43% of the Board and a majority of management were comprised of women. These percentages are consistent with the previous financial year. Maintaining the representation of women at senior levels of management remains one of the Company's strategic priorities on an ongoing basis. The following table discloses the gender diversity of the Company as at 30 June 2015:

CATEGORY	% FEMALE	% MALE
Board	43	57
Senior executives/senior management <sup>1</sup>	51	49
Pacific Brands group <sup>2</sup>	73	27

<sup>1</sup> Covers employees in bands 1-4 (of 12 job grades)

<sup>2</sup> Includes full and part-time employees

As a 'relevant employer', as required by the Workplace Gender Equality Act 2012, the Company lodged its workforce gender profile, as at March 2015, with the Workplace Gender Equality Agency ('WGEA'). A copy of the profile can be accessed through the WGEA website, [www.wgea.gov.au](http://www.wgea.gov.au).

### 13. NZX CORPORATE GOVERNANCE RULES

As an overseas listed issuer, the Company is deemed to satisfy and comply with the NZX Listing Rules, so long as it remains listed on the ASX. The only NZX requirements applicable to the Company are to give the NZX the same information and notices the Company is required to give to the ASX and to include the statement appearing below in the Company's Annual Report.

In compliance with NZX Listing Rule 5.1.8(d), the Company notes that the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ('ASX Corporate Governance Rules') may materially differ from the NZX's corporate governance rules and principles in the NZX Corporate Governance Best Practice Code. Details of the ASX Corporate Governance Principles are available on the ASX website at [www.asx.com.au](http://www.asx.com.au).

## DIRECTORS' REPORT

The directors of Pacific Brands Limited ('Company') present their report together with the financial report of the Company and its controlled entities (collectively the 'Consolidated Entity') for the year ended 30 June 2015 and the auditor's report thereon. The information set out below is to be read in conjunction with the Operating and Financial Review ('OFR') set out on pages 8 to 18 of the Annual Report and the Remuneration Report set out on pages 35 to 52 of the Annual Report which form part of this Directors' Report.

### 1. DIRECTORS

The directors of the Company during the financial year and up to the date of this report are:

P H Bush (Chairman)  
D L Bortolussi (Chief Executive Officer) (appointed 26 August 2014)  
S T Goddard  
K L Grant  
J S King  
H E C Nash  
L B Nicholls AO  
J C Pollaers (former Chief Executive Officer) (ceased 7 July 2014)

Particulars of directors' age, qualifications, other listed company directorships, experience and special responsibilities are detailed on page 4 of the Annual Report. Particulars of the qualifications and experience of the Company Secretary are detailed on page 5 of the Annual Report.

### 2. DIRECTORS' INTERESTS IN SHARE CAPITAL

The relevant interest of each director in the share capital of the Company as at the date of this report is as follows:

	FULLY PAID ORDINARY SHARES	PERFORMANCE RIGHTS
P H Bush	10,000	
D L Bortolussi	200,000	4,190,285
S T Goddard	25,000	
K L Grant	19,500	
J S King	25,000	
H E C Nash	20,000	
L B Nicholls AO	25,925	

### 3. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the 2015 financial year are shown in the table on page 23 of the Annual Report.

### 4. STATE OF AFFAIRS

In the opinion of the directors, there were no significant changes in the state of affairs of the Consolidated Entity other than those noted in the OFR.

### 5. PRINCIPAL ACTIVITIES, RESULTS OF OPERATIONS AND LIKELY DEVELOPMENTS

A description of the Consolidated Entity's operations and business model, strategy and material business risks, review of financial performance and position, and future financial prospects are contained in the OFR.

Information in the OFR is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Consolidated Entity. Information that could give rise to likely material detriment to the Consolidated Entity, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage has not been included. Other than the information set out in the OFR, information about other likely developments in the Consolidated Entity's operations and the expected results of these operations in future financial years has not been included.

There has been no significant change in the nature of principal activities during the year.

### 6. DIVIDENDS

No interim or final dividend was declared.

## 7. EVENTS SUBSEQUENT TO REPORTING DATE

There have been no material events subsequent to 30 June 2015.

## 8. NON-AUDIT SERVICES

During the 2015 financial year, KPMG, the Company's auditor, performed certain other services in addition to its statutory duties.

The Board has considered the non-audit services provided during the financial year by the auditor and in accordance with written advice provided by resolution of the Audit, Business Risk and Compliance Committee, is satisfied that the provision of those non-audit services during the financial year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit, Business Risk and Compliance Committee to ensure they did not impact the integrity and objectivity of the auditor
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is included on page 53 in this report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the financial year are set out below:

	CONSOLIDATED	
	2015 \$	2014 \$
<b>Audit services</b>		
<b>Auditors of the Company – KPMG Australia</b>		
Audit and review of financial statements	<b>586,300</b>	659,938
Overseas KPMG firms:		
Audit of financial statements	<b>184,800</b>	177,644
	<b>771,100</b>	837,582
<b>Other services</b>		
<b>Auditors of the Company – KPMG Australia</b>		
Other assurance services <sup>1</sup>	<b>5,000</b>	26,350
General advisory services <sup>2</sup>	<b>603,779</b>	288,000
Overseas KPMG firms:		
Taxation compliance services	<b>7,766</b>	10,345
Other assurance services	<b>2,635</b>	2,387
	<b>619,180</b>	327,082

1 Other assurance services in F15 comprise agreed upon procedures performed on bank covenant certification provided to the Consolidated Entity's banking syndicate

2 Includes financial advisory and vendor due diligence services provided in connection with the divestment of businesses. The provision of non-audit services by KPMG was approved by the Company's Audit Business Risk & Compliance Committee, in accordance with the Company's policy on Non-audit Services and Rotation of Auditors, on the basis that KPMG's knowledge of the Company's businesses would facilitate a quicker, more focussed and more cost effective outcome for the Company

It is the Company's policy not to engage the Company's auditor to provide non-audit services, unless the provision of those services will not prejudice the auditor's independence. Approval to provide these services must be obtained in accordance with the Audit, Business Risk and Compliance Committee's policy on non-audit services.

## 9. INDEMNIFICATION AND INSURANCE OF OFFICERS

In accordance with the Company's Constitution, the Company has agreed to indemnify every person who is, or has been, an officer of the Company or its controlled entities against any liability (including reasonable legal costs) incurred by the person as such an officer of the Company or its controlled entities, to the extent permitted by law and subject to the restrictions in Section 199A of the Corporations Act 2001. Indemnified officers are the directors and secretaries of the Company or its controlled entities. During the financial year, there were no claims made against any officer of the Company that would invoke the above indemnity.

The Company has entered into standard form deeds of indemnity with all of its current directors and the Company Secretary against all liabilities which they may incur in the performance of their duties as directors of the Company, except liability to the Company or a related body corporate, liability for a pecuniary penalty or compensation under the Corporations Act 2001, and liability arising from conduct involving a lack of good faith.

## DIRECTORS' REPORT (CONTINUED)

The Company holds a directors' and officers' liability insurance policy on behalf of current and former directors and officers of the Company and its controlled entities. The period of the current policy extends from 1 December 2014 to 30 November 2015 and the premium was paid on 12 February 2015. Due to confidentiality obligations and undertakings of the policy, no further details in respect of the policy or premium can be disclosed.

### 10. ENVIRONMENTAL REGULATION

The Consolidated Entity's operations are subject to environmental laws and regulations, the details of which vary depending upon the jurisdiction in which the operation is located. These environmental laws and regulations control the use of land, the erection of buildings and structures on land, the emission of substances to water, land and atmosphere, the emission of noise and odours, the treatment and disposal of waste, and the investigation and remediation of soil and groundwater contamination.

The Consolidated Entity has procedures in place designed to ensure compliance with environmental regulatory requirements. The directors are not aware of any material breaches of environmental regulations during the financial year.

### 11. ROUNDING OFF

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 (as in force on 30 June 2015) and in accordance with that Class Order, amounts in the Financial Statements and this Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## REMUNERATION REPORT – UNAUDITED

Dear shareholders

We would briefly like to draw your attention to decisions that your Board has taken in respect of remuneration outcomes for the 2015 financial year and which are fully explained in the Remuneration Report which follows. Significant effort has gone into achieving the objectives of the strategic review, which were delivered ahead of plan and have resulted in a substantially simpler, higher quality continuing business with improved growth prospects. For the continuing business, EBIT before significant items (as defined on page 45) declined by 4.8% due mainly to challenges in the discount department store channel, portfolio brand performance and lower wholesale margins impacted by currency devaluation, but showed a significant turnaround in the second half (up 26%).

Continuing business EBIT before significant items is the primary measure of financial performance utilised to assess business performance under the Company's short term incentive ('STI') plan. None of the Company's senior executives received any payment under the Company's STI plan in respect of the overall Company performance in the 2015 financial year. However, the Group General Manager, Tontine & Dunlop Flooring received 50% of his maximum STI performance as a result of the Tontine & Dunlop Flooring operating group growing 2015 EBIT by more than 16% and exceeding certain pre-determined targets. None of the hurdles under the Company's long term incentive ('LTI') plan were met, as a consequence no performance rights vested at the end of the 2015 financial year. The fact that no LTI award and only a limited STI award vested for any senior executive in respect of the 2015 financial year demonstrates the alignment of the Company's remuneration arrangements with shareholder value.

The Board assessed the Company's remuneration arrangements in the context of the Company's reduced size and in recognition of the ongoing difficult trading conditions in the markets in which the Company operates, and as a result made the following decisions:

- the base and committee fees payable to the Company's non-executive directors, which were reduced by 25% effective 1 July 2012, remained fixed for a third successive year. A salary freeze was also imposed on the Company's senior executives, except where the senior executive moved into a new and/or more complex role in the financial year
- the aggregate fixed annual remuneration of the Company's senior executives (on an annualised, continuing business basis) was approximately 28% below the 2014 equivalent amount for the same roles. In particular, the remuneration package for the office of Chief Executive Officer ('CEO') was reviewed and the fixed annual remuneration of David Bortolussi was set at \$200,000 less than that of his predecessor
- the Company's STI plan was simplified and the ability to earn an STI payment in excess of 100% (up to 125%) of the executives' STI opportunity, for achievement of the highest levels of personal performance, has been removed. The STI plan was also weighted more heavily towards business performance, increasing from 75% in 2014 to 90% 2015
- while the 'EPS' performance component of the 2015 LTI grant will be positively impacted by lower interest charges as a result of the reduction in net debt, this benefit was more than offset by the impact of unrecovered gross corporate 'stranded' costs as a result of the divestments which management was required to mitigate

There were a number of remuneration outcomes of a one-off nature which the Board wishes to highlight for shareholders, as follows:

- in April 2014, the Board appointed Macquarie Capital Limited to undertake a strategic review of the Company. Given the uncertainty created by the strategic review, particularly during the period where a new CEO had not yet been appointed, the extraordinary commitment which would be required of certain senior executives to successfully divest Brand Collective and Workwear, and the importance of maintaining the performance of the Company and retaining key talent during this challenging period, in July 2014 combined incentive and retention agreements were entered into with certain senior executives. The incentive component of these awards was linked, in part, to the success of the divestment process. The incentive and retention awards vested, in whole or in part (as detailed on page 44 of the Remuneration Report) reflecting the speed with which the divestments were executed and the quantum of the net proceeds received, which enabled the Company to report a debt free position as at 30 June 2015
- the Company's Chairman, Peter Bush, assumed the role of Executive Chairman and Acting CEO following the resignation of the former CEO John Pollaers effective 7 July 2014 until 26 August 2014 when David Bortolussi was appointed CEO of the Company. Mr Bush was not compensated for the additional services he provided as acting CEO and discussion of the Chairman's remuneration in the Remuneration Report refers to his remuneration as a non-executive director only
- the Company's CEO, David Bortolussi, assumed the role of Acting Group General Manager for the Underwear operating group following the resignation of Anthony Heraghty, effective 30 January 2015. Mr Bortolussi was not compensated for the additional services he provided in this role
- Chris Jones was appointed to the role of Group General Manager, Workwear effective 7 November 2014, under a fixed term contract which had a termination date of 25 February 2015. Mr Jones temporarily assumed this role following the resignation of Matthew Cloughton up until the divestment of that business on 1 December 2014

In relation to the 2016 financial year, the Board has again decided to continue the freeze on non-executive director fees and senior executive salaries and to continue with the current STI arrangements. The 2016 LTI grant will be based on continuing business reported results after the impact of any significant items (previously before significant items) and will be adjusted for the impact of lower interest charges following the receipt of proceeds from divestments.

The Board believes the 2015 Remuneration Report provides you with a clear overview of our remuneration policies and practices, and demonstrates the links between Company performance and remuneration outcomes. We will continue to evolve the Company's remuneration practices to adjust to business circumstances and market conditions while at the same time taking into account shareholder feedback on the Company's remuneration framework.



**Peter Bush**  
Chairman



**Helen Nash**  
Chairman, Remuneration Committee

## REMUNERATION REPORT – UNAUDITED (CONTINUED)

### Overview

The Company operates in a very competitive and challenging segment of the Australian economy. The Company has a proud history, iconic brands and a team of people that is committed to the objective of transforming the Company into a more focused and nimble organisation able to compete and grow in a global market. The Board is determined to ensure we have a suitably qualified management team properly led, rewarded and motivated to deliver against this objective so as to deliver increased shareholder value. The Board is also committed to clear and transparent disclosure of the Company's remuneration arrangements.

This overview (which does not form part of the audited Remuneration Report) is intended to provide stakeholders with additional information to that provided in the Remuneration Report, which must be prepared in accordance with statutory obligations and accounting standards.

### Actual remuneration outcomes

The table on page 49 in the Remuneration Report provides a breakdown of the Company's senior executive remuneration in accordance with statutory obligations and accounting standards. However, the Board is aware that the format in which the Company is required to present this information may make it difficult for shareholders to form an understanding of the cash and other benefits actually earned by senior executives from the various components of their remuneration in respect of the 2015 financial year. The following table represents non-IFRS information and sets out the cash and the value of other benefits actually received by the Company's senior executives in respect of the 2015 financial year for service during that financial year. References to the relevant section of the Remuneration Report are provided by way of footnotes, where the value of the relevant benefit calculated in accordance with accounting standards differs from the value disclosed below.

2015 FINANCIAL YEAR	FIXED SALARY <sup>1</sup>	SUPER-ANNUATION CONTRIBUTIONS <sup>2</sup>	SHORT TERM INCENTIVES <sup>3</sup>	LONG TERM INCENTIVES <sup>4</sup>	TERMINATION	RETENTION/ INCENTIVE PAYMENTS <sup>5</sup>	OTHER <sup>6</sup>	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$
D L Bortolussi <sup>7</sup> Chief Executive Officer and Acting Group General Manager, Underwear	1,130,260	25,000	-	-	-	1,200,000	38,584	2,393,844
P Gould <sup>8</sup> Group General Manager, Sheridan	362,385	37,029	-	-	-	256,086	27,397	682,897
D C Muscat <sup>9</sup> Chief Financial Officer	152,171	6,966	-	-	-	84,650	15,221	259,008
I J Shannon <sup>10</sup> Group General Manager, Tontine & Dunlop Flooring	154,688	16,733	99,000	-	-	-	21,449	291,870
<b>Former senior executives</b>								
M W Claughton <sup>11</sup> Group General Manager, Workwear	223,206	8,814	-	-	-	766,652	10,577	1,009,249
A M Heraghty <sup>12</sup> Group General Manager, Underwear	336,002	14,583	-	-	154,081	200,305	61,562	766,533
C E Jones <sup>13</sup> Group General Manager, Workwear	39,500	2,961	-	-	-	-	-	42,461
M C Matthews <sup>14</sup> Group General Manager, Brand Collective	178,204	12,500	-	-	-	408,877	11,809	611,390
J C Pollaers <sup>15</sup> Chief Executive Officer	101,722	4,854	-	-	-	-	1,960	108,536
<b>Total</b>	<b>2,678,138</b>	<b>129,440</b>	<b>99,000</b>	<b>-</b>	<b>154,081</b>	<b>2,916,570</b>	<b>188,559</b>	<b>6,165,788</b>

<sup>1</sup> Comprising base salary as set out in the table on page 49 in the Remuneration Report, but does not include movements in annual leave and long service leave provisions unless leave was actually taken in the financial year or accrued leave was paid out on termination

<sup>2</sup> Comprising superannuation as set out in the table on page 49 in the Remuneration Report

<sup>3</sup> This figure represents the value (if any) of STI paid to the executive following the conclusion of the financial year, relating to the achievement of pre-determined performance measurement criteria in respect of the financial year, as set out in the table on page 40 in the Remuneration Report. For further details of the Company's STI program, see pages 41 and 46 in the Remuneration Report

<sup>4</sup> This figure represents the value (if any) of any LTI which vested in the financial year, irrespective of when the LTI was granted. For the value of share based payments calculated in accordance with the accounting standards see the table on page 49 in the Remuneration Report

<sup>5</sup> One-off retention and incentive payments, as outlined on page 49 in the Remuneration Report

<sup>6</sup> Principally includes motor vehicle allowances and payments made on the employee's behalf under a novated motor vehicle lease arrangement, as set out in the table on page 49 in the Remuneration Report

<sup>7</sup> D L Bortolussi was appointed as Chief Executive Officer on 26 August 2014, having previously held the role of Chief Financial & Operating Officer. D L Bortolussi was also appointed as Acting Group General Manager, Underwear effective 31 January 2015 following the resignation of A M Heraghty

<sup>8</sup> Effective 2 December 2014 the Sheridan Tontine Group was separated, creating Sheridan as a stand alone reporting segment. P Gould ceased as Group General Manager, Sheridan Tontine on 2 December 2014 and commenced as Group General Manager, Sheridan on the same date

<sup>9</sup> D C Muscat was appointed as Chief Financial Officer on 17 February 2015. His disclosed remuneration relates only to the period he held this role

<sup>10</sup> I J Shannon was appointed as Group General Manager, Tontine & Dunlop Flooring on 2 December 2014, being the date on which Tontine & Dunlop Flooring was created as a stand alone reporting segment. His disclosed remuneration relates only to the period he held this role

<sup>11</sup> M W Claughton resigned as Group General Manager, Workwear effective 7 November 2014

<sup>12</sup> A M Heraghty resigned as Group General Manager, Underwear effective 30 January 2015. The termination payment to Mr Heraghty is payment in lieu of notice, as a result of the Company requiring Mr Heraghty not to work his three month contractual notice period following his resignation on 26 January 2015

- 13 C E Jones was appointed to the role of Group General Manager, Workwear effective 7 November 2014 and ceased in that role on 1 December 2014, being the date on which the divestment of the Workwear operating group completed
- 14 M C Matthews ceased as Group General Manager, Brand Collective on 1 December 2014, being the date on which the divestment of the Brand Collective operating group completed
- 15 J C Pollaers ceased as Chief Executive Officer on 7 July 2014

As mentioned previously, remuneration details calculated in accordance with statutory obligations and accounting standards are provided on pages 40 to 52 in the Remuneration Report.

### **Fixed remuneration**

Except where the relevant senior executive had been promoted into new and/or more complex role, the fixed salary of all senior executives was frozen in the 2015 financial year. The aggregate fixed annual remuneration paid to the Company's senior executive team (on an annualised, continuing business basis) reduced by approximately 28% versus 2014. In particular, the remuneration package for the office of Chief Executive Officer (CEO) was set at \$200,000 less than that of his predecessor and the remuneration package for the Chief Financial Officer is substantially less than the package of the former Chief Financial & Operating Officer, partly reflecting the narrowing of the role.

### **STI outcome**

The Company's STI plan is the cash based component of the senior executives at risk reward opportunity and is based on achieving pre-determined performance measurement criteria. In the 2015 financial year, the STI plan has been significantly simplified, now comprising an earnings component (60%), a balance sheet component (30%) and a component which is based on the level of collaboration between the relevant executive and all other senior executives (10%).

The Board has ultimate responsibility for the assessment and award of both the business and personal components of the STI plan to senior executives. The Board assesses the performance of the CEO, and the CEO assesses the performance of the other senior executives and makes recommendations to the Remuneration Committee and the Board. Financial performance is primarily measured based on continuing business earnings before interest, tax and significant items ('EBIT before significant items') and an inventory target. Significant items are other expenses that are individually significant, as disclosed in Note 6 to the financial statements ('significant items'). The inventory target reflects the importance of working capital management, cash conversion and returns to the Company.

As summarised in the table above, only one of the Company's senior executives received any payment under the Company's STI plan in respect of the 2015 financial year. The Group General Manager, Tontine & Dunlop Flooring received 50% of his maximum STI performance as a result of the Tontine & Dunlop Flooring operating group growing 2015 EBIT more than 16% and exceeding certain pre-determined targets.

### **LTI outcome**

The Company's LTI plan is the equity component of the senior executives at risk reward opportunity and is based on achieving pre-determined performance measures related to total shareholder return ('TSR') and earnings per share ('EPS'). No performance rights vested under the Company's LTI plan following the end of the financial year as neither the EPS nor TSR hurdles were met. Performance rights under the Company's LTI plan have not vested in any of the past five financial years (with the exception of performance rights granted as part of sign on arrangements, which have been previously disclosed in the 2013 and 2014 Remuneration Reports). This demonstrates the linkages between the Company's remuneration strategy and Company performance.

### **Combined incentive and retention payments**

As discussed on page 44, in July 2014 combined incentive and retention agreements were entered into with certain senior executives in connection with the strategic review of the Company undertaken by Macquarie Capital Limited, with the incentive payment component (where applicable) linked, in part, to the success of the divestment process which arose out of the strategic review.

### **CEO transition**

As disclosed in the 2014 Remuneration Report, John Pollaers stepped down from the role of CEO on 7 July 2014. In accordance with the terms of his employment contract, Mr Pollaers received a termination payment of \$1,400,000, equal to 12 months fixed annual remuneration capped as per the requirements of the Corporations Act 2001. No STI was paid to Mr Pollaers in respect of the 2014 financial year. Mr Pollaers' unvested performance rights, which were granted as part of his 2013 and 2014 LTI awards, lapsed on his cessation of employment.

### **Other executive changes**

On 26 August 2014, the Company announced that agreement had been reached for Wesfarmers to acquire the Company's Workwear business. The Group General Manager, Workwear, Matthew Cloughton, resigned effective 7 November 2014. In the context of the Workwear business being subject to a conditional contract of sale at the time of Mr Cloughton's resignation and given the pressing commercial need to find a replacement for Mr Cloughton at short notice, Chris Jones, a senior executive of Wesfarmers Industrial & Safety division, was appointed to the role of Group General Manager, Workwear effective 7 November 2014, under a fixed term contract which had a termination date of 25 February 2015. Mr Jones' remuneration reflected his employment arrangements with Wesfarmers and, given the short fixed term nature of his employment contract, Mr Jones did not participate in either the Company's STI program or LTI program. Mr Jones' employment with the Company ceased on 1 December 2014, being the date that the divestment of the Workwear operating group completed. Further changes in the Company's key management personnel ('KMP') are set out in the table on page 38.



# REMUNERATION REPORT – AUDITED

## 1. INTRODUCTION

The directors of Pacific Brands Limited present the Remuneration Report for the Company and its controlled entities (together referred to as the 'Consolidated Entity') for the year ended 30 June 2015. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the Corporations Act 2001.

The Remuneration Report includes details of the remuneration strategies for KMP of the Consolidated Entity. The KMP comprises the non-executive directors, the executive director (Chief Executive Officer) and those persons with authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the financial year. Under Australian Accounting Standard AASB 124 *Related Party Disclosures*, this is deemed to include non-executive directors. The KMP, other than the non-executive directors, are referred to throughout this Remuneration Report as 'senior executives'.

The names and positions of the KMP are listed in the following table:

### Current senior executives

D L Bortolussi <sup>1</sup>	Chief Executive Officer and Acting Group General Manager, Underwear
P Gould <sup>2</sup>	Group General Manager, Sheridan
D C Muscat <sup>3</sup>	Chief Financial Officer
I J Shannon <sup>4</sup>	Group General Manager, Tontine & Dunlop Flooring

### Former senior executives

M W Cloughton <sup>5</sup>	Group General Manager, Workwear
A M Heraghty <sup>6</sup>	Group General Manager, Underwear
C E Jones <sup>7</sup>	Group General Manager, Workwear
M C Matthews <sup>8</sup>	Group General Manager, Brand Collective
J C Pollaers <sup>9</sup>	Chief Executive Officer

### Non-executive directors

P H Bush <sup>10</sup>	Chairman
S T Goddard	Director
K L Grant	Director
J S King	Director
H E C Nash	Director
L B Nicholls AO	Director

- <sup>1</sup> D L Bortolussi was appointed as Chief Executive Officer on 26 August 2014, having previously held the role of Chief Financial & Operating Officer up until that date. D L Bortolussi was also appointed as Acting Group General Manager, Underwear effective 31 January 2015 following the resignation of A M Heraghty
- <sup>2</sup> Effective 2 December 2014, the Sheridan Tontine Group was separated, creating Sheridan as a stand alone reporting segment. P Gould ceased as Group General Manager, Sheridan Tontine on 2 December 2014 and commenced as Group General Manager, Sheridan on the same date
- <sup>3</sup> D C Muscat was appointed as Chief Financial Officer on 17 February 2015
- <sup>4</sup> I J Shannon was appointed as Group General Manager, Tontine & Dunlop Flooring on 2 December 2014, being the date on which Tontine & Dunlop Flooring was created as a stand alone reporting segment
- <sup>5</sup> M W Cloughton resigned as Group General Manager, Workwear effective 7 November 2014
- <sup>6</sup> A M Heraghty resigned as Group General Manager, Underwear effective 30 January 2015
- <sup>7</sup> C E Jones was appointed to the role of Group General Manager, Workwear effective 7 November 2014 and ceased in that role on 1 December 2014, being the date on which the divestment of the Workwear group completed
- <sup>8</sup> M C Matthews ceased as Group General Manager, Brand Collective on 1 December 2014, being the date on which the divestment of the Brand Collective operating group completed
- <sup>9</sup> J C Pollaers ceased as Chief Executive Officer on 7 July 2014
- <sup>10</sup> P H Bush assumed the role of Executive Chairman on 7 July 2014, pending the appointment of a new Chief Executive Officer, and ceased in this role on 26 August 2014 when D L Bortolussi was appointed to the role of Chief Executive Officer

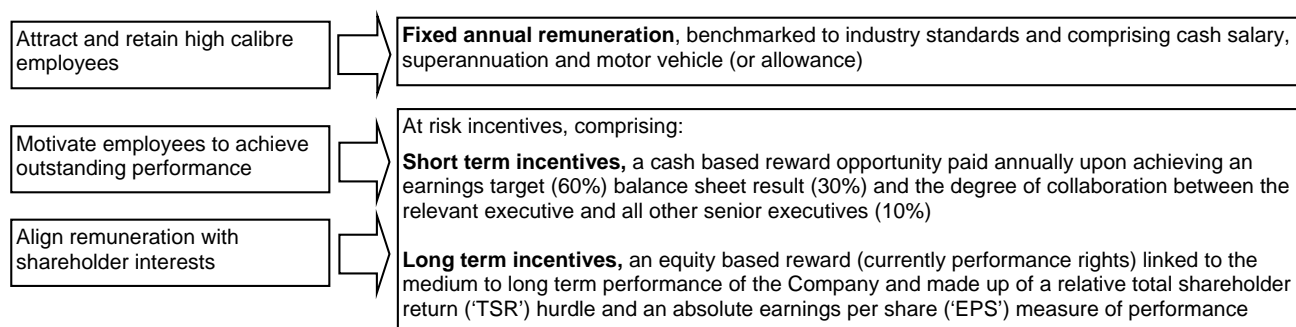
## 2. REMUNERATION STRATEGY AND GOVERNANCE

### A. Remuneration strategy

The Board believes that a transparent and appropriately structured remuneration strategy underpins a strong performance based culture and assists in driving shareholder returns. The Company's remuneration strategy has been developed over time with specialist advice from external remuneration consultants where appropriate, and is designed to attract, motivate and retain appropriately qualified and experienced non-executive directors and senior executives.

In keeping with current market best practice, a substantial proportion of the remuneration of the Company's senior executives is at risk, which means that it is not paid to the executive if pre-determined performance measurement criteria are not met. The Remuneration Committee and the Board work with management to identify key financial and non-financial value drivers to set appropriate internal (short term) and market based (long term) performance hurdles to achieve alignment of executive remuneration with the Company's business strategy. The remuneration of non-executive directors, on the other hand, is not linked to company performance and is comprised solely of directors' fees (including superannuation) in order to maintain director independence. In addition, the maximum aggregate annual amount available to remunerate non-executive directors must be approved by shareholders.

The diagram below outlines the Company's remuneration strategy with respect to senior executives:



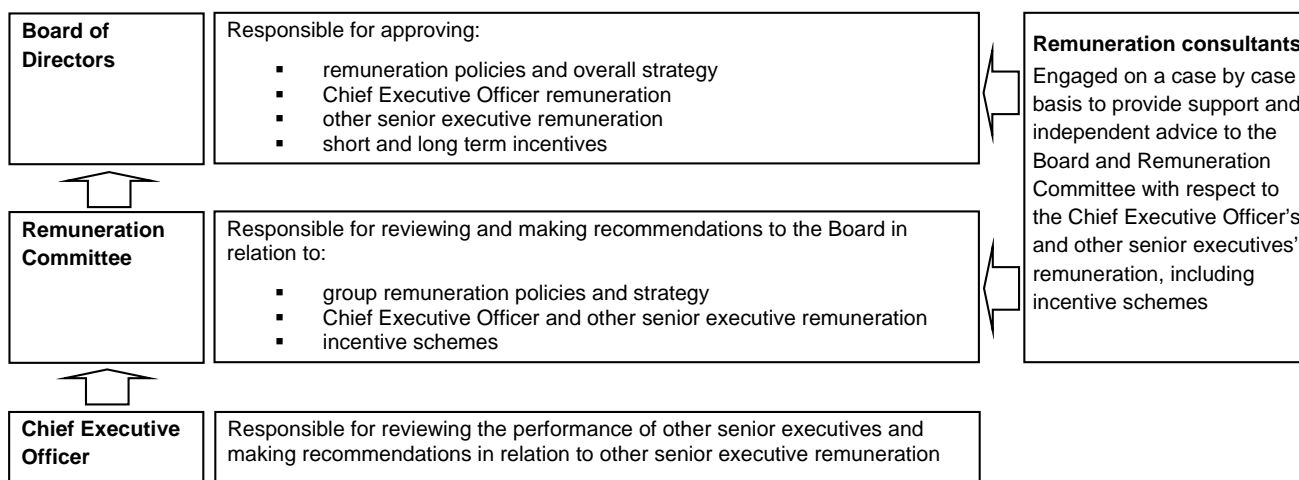
An overview of the elements of remuneration is set out in the following table. A more detailed discussion of each element is contained later in the Remuneration Report.

	ELEMENTS OF REMUNERATION	DIRECTORS			DISCUSSION IN REMUNERATION REPORT
		NON-EXECUTIVE	CHIEF EXECUTIVE OFFICER	OTHER SENIOR EXECUTIVES	
Fixed remuneration	Fees	✓			Page 50
	Salary		✓	✓	Page 40
	Superannuation <sup>1</sup>	✓	✓	✓	Page 40
	Other benefits		✓	✓	Page 40
At risk remuneration	Short term incentive		✓	✓	Page 41
	Long term incentive		✓	✓	Page 41
Post employment	Notice periods and termination payments		✓	✓	Page 44

<sup>1</sup> Non-executive directors' fees are set inclusive of statutory superannuation contributions

## B. Remuneration governance mechanisms

The diagram below outlines the governance processes in place in relation to executive remuneration:



As part of the Board's commitment to align remuneration with Company performance, employee performance is reviewed annually against agreed key performance objectives set for the relevant financial year. The Company's performance review system involves employees completing a self assessment template, as well as their manager completing an assessment document. These written assessments form the basis of a performance review discussion between the employee and their manager. The Board (through its Remuneration Committee) agrees objectives for the evaluation of the Chief Executive Officer and reviews the objectives of the other senior executives. A review of the performance of the Chief Executive Officer against the agreed objectives is led by the Chairman in consultation with the Board. The performance of all other senior executives is reviewed by the Chief Executive Officer and reported to, and discussed by, the Board. Performance reviews ordinarily take place close to the end of the financial year.

### Maintaining independence

It is important that the Board maintains independence from management when making decisions affecting employee remuneration, particularly in respect of the Chief Executive Officer and other senior executives. Accordingly, the Company's Remuneration Committee is comprised solely of non-executive directors and has an independent Chairman.

Further details regarding the role, responsibilities and composition of the Remuneration Committee are set out on page 22 of the Annual Report.

## REMUNERATION REPORT – AUDITED (CONTINUED)

### Remuneration consultants and external advisers

In order to ensure that it has all relevant information at its disposal (including in respect of market practice and legal parameters), the Board engages independent external advisers where appropriate. Whilst the advice and recommendations of external advisers are used as a guide, they do not serve as a substitute for thorough consideration of the issues by the Board. All decisions relating to remuneration strategy and approach are made by the Board itself, following careful consideration of the Remuneration Committee's recommendations, the Company's financial position, strategic objectives and current requirements.

The Company has the following guidelines to ensure that remuneration consultants are free from undue influence by any member of the KMP to whom a remuneration recommendation relates:

- where the Company's management, the Board or the Remuneration Committee identifies the need for external advice on a matter which will or may involve the remuneration of any KMP ('Remuneration Advice'), the matter is to be referred to the Remuneration Committee Chairman before obtaining the advice
- the Remuneration Committee Chairman seeks approval from all members of the Remuneration Committee for the engagement of a particular remuneration consultant to provide Remuneration Advice
- in engaging a remuneration consultant, the Remuneration Committee must consider all factors relevant to the engagement of the remuneration consultant, including any potential conflicts of interest, the scope of the engagement and the desired outputs. The remuneration consultant is required to agree to terms of engagement that regulate its level of access to, and require its independence from management
- to minimise the risk of undue influence when communicating with a remuneration consultant, directors and management must not: apply unreasonable pressure or coerce the consultant to adopt an approach favoured by the relevant KMP; provide information that is selective or unbalanced; imply or threaten that future work is contingent on the consultant giving a particular recommendation; or offer an incentive for the consultant to deliver a preferred outcome
- any Remuneration Advice from a remuneration consultant that includes a remuneration recommendation (in draft or final form) must be provided directly to the members of the Remuneration Committee and must be accompanied by a declaration from the remuneration consultant as to whether the consultant's advice is free from undue influence by relevant KMP

The Company made no use of remuneration consultants on issues of KMP remuneration during the 2015 financial year.

### 3. STRUCTURE OF SENIOR EXECUTIVE REMUNERATION

The disclosures in this section relate to the remuneration for KMP other than the non-executive directors ('senior executives').

#### A. Remuneration mix

The Company's executive remuneration is structured as a mix of fixed annual remuneration and variable remuneration through at risk short term and long term components. The mix of these components varies for different management levels.

The table below sets out the relative proportion and components of the senior executives' total remuneration packages for the 2015 financial year:

	% TOTAL TARGET REMUNERATION (ANNUALISED) <sup>1</sup>			
	FIXED REMUNERATION	PERFORMANCE BASED REMUNERATION		
	FIXED	SHORT TERM INCENTIVES <sup>2</sup>	LONG TERM INCENTIVES	TOTAL PERFORMANCE BASED REMUNERATION
Chief Executive Officer	32%	32%	36%	68%
Other senior executives <sup>3</sup>	48%	29%	23%	52%

<sup>1</sup> Percentages based on target remuneration for the relevant senior executives assuming 100% of STI and LTI fully vest

<sup>2</sup> Excludes one-off retention and incentive payments and assumes vesting of 100% of business and personal performance components

<sup>3</sup> Based on the average remuneration for current senior executives assuming the executives were employed for the full period

While fixed remuneration is designed to provide a predictable 'base' level of remuneration, the STI and LTI plans reward executives when pre-determined performance hurdles are met or exceeded.

#### B. Fixed remuneration

The terms of employment for all senior executives contain a fixed annual remuneration component comprising:

- base salary
- superannuation
- motor vehicle allowance

Remuneration levels are reviewed annually, with effect from 1 October each year, by the Remuneration Committee and the Board through a process that ensures an executive's fixed remuneration remains competitive with the market in which the Company competes for talent and reflects an employee's skills, experience, accountability and general performance. For senior executives, external advice is sought to provide an independent determination of market positioning and relevant trends. In addition, the Company also subscribes to published survey data and participates in industry forums. Through these multiple channels, the Company maintains an ongoing understanding of trends and developments within both broad and specific markets.

### C. Short term incentives

#### Overview of short term incentive ('STI') plan

What is the STI plan?	The STI plan is the cash based component of the senior executives at risk reward opportunity, based on achieving pre-determined performance measurement criteria.
Why does the Board consider an STI is appropriate?	STIs are an at risk component of remuneration that strengthens the relationship between performance and reward. The at risk component is used to motivate the Company's employees to achieve outcomes above expectations on the understanding that they will share in the Company's success.
What is the value of the STI opportunity?	Under the Company's STI plan: <ul style="list-style-type: none"> <li>▪ the Chief Executive Officer has the opportunity to earn a bonus equivalent to 100% of the Chief Executive Officer's fixed annual remuneration</li> <li>▪ all other members of the senior executive team have the opportunity to earn a bonus equivalent to 60% of their fixed annual remuneration</li> </ul>
What are the performance conditions?	The Company's STI plan has the following components: <ul style="list-style-type: none"> <li>▪ business performance (90%): The Chief Executive Officer and Chief Financial Officer are assessed on overall Company performance. Other senior executives are assessed half on overall Company performance and half on the performance of the operating group which they lead. The business performance component is determined as follows: <ul style="list-style-type: none"> <li>- 60% is based on the achievement of a pre-determined earnings target, being continuing business earnings before interest, tax and other expenses that are individually significant, as disclosed in the notes to the financial statements ('EBIT before significant items'). Earnings excluding such expenses are considered by the Board to be a better basis for comparison from period to period as well as more comparable with future performance. They are also the primary measure of earnings considered by management in operating the business and by the Board in determining dividends</li> <li>- 30% is assessed against the achievement of a pre-determined inventory target reflecting the importance of working capital management, cash conversion and returns to the Company</li> </ul> </li> <li>▪ personal performance (10%): The personal performance component is based on an assessment of the level of collaboration between the relevant executive, and all other senior executives</li> </ul>
Why were the performance conditions chosen?	The performance conditions were chosen to ensure that the STI plan is linked to the achievement of key financial and non-financial objectives. In particular, the business performance objectives were chosen to incentivise management to stabilise earnings and maximise cash flow in line with shareholder concerns and expectations. The Board also decided to increase the weighting towards achieving business performance objectives from 75% in 2014 to 90% in 2015.
How is STI assessed?	The Board has ultimate responsibility for the award of both the business performance and the personal components of all STI payments and, where a limited amount is available for payment of STI awards, has a discretion as to whether the personal component is paid in priority to the business performance component or vice versa. In exercising its responsibilities, the Board takes into account factors which are both objective and subjective, and internal and external, including the appropriateness of awarding STI payments in light of the overall business environment. The actual amount of any STI award is determined primarily based on achievement of pre-determined performance measurement criteria which are reviewed at the end of each financial year. If the Board determines that an amount is available for payment of STI awards to the Company's employees, then the Board assesses the personal performance of the Chief Executive Officer against agreed performance measurement criteria and decides the level of STI that is appropriate. The Chief Executive Officer similarly assesses the personal performance of the other senior executives and makes recommendations to the Remuneration Committee and Board in relation to payment of any STI.

### D. Long term incentives

#### Overview of long term incentive ('LTI') plan

What is the LTI plan?	The LTI is the equity component of a senior executive's at risk reward opportunity and is linked to the Company's medium to long term performance.
Who participates in the LTI?	Participation in the LTI arrangements is only offered to senior executives who are able to influence generation of shareholder value and have a direct impact on the Company's performance.
Why does the Board consider an LTI is appropriate?	The LTI is structured to ensure there is an appropriate balance between the achievement of short term objectives under the STI arrangements and longer term goals so that senior executives continue to be motivated by long term growth in shareholder value.

## REMUNERATION REPORT – AUDITED (CONTINUED)

**How is the LTI structured?** The Company's senior executive LTI plan is a performance rights plan ('PRP'), first introduced in 2004 as part of the Company's initial public offering. Each performance right converts to one ordinary share in the Company on satisfaction of the relevant performance conditions. Grants are made annually, with effect from 1 July in each financial year. The 2015 financial year performance rights grant ('F15 grant') was granted effective 1 July 2014.

The rules of the PRP provide that the Board may, at the time of making a grant of performance rights, determine an amount that is payable by the relevant senior executive upon allocation of a share following vesting of a performance right. In respect of all performance rights granted to date, the Board has on each occasion determined that no amount is payable by the relevant executive on vesting of their grant of rights.

Shares allocated on the vesting of performance rights are not subject to any restriction on the senior executive's rights to trade in those shares, other than any restrictions imposed by the Company's Guidelines for Dealing in Securities.

The rules of the PRP are subject to the terms and conditions of a senior executive's employment contract, and if there is any inconsistency the employment contract prevails. It is intended that any grant of performance rights to an executive director will, where practical, be subject to the approval of shareholders at the Company's Annual General Meeting.

**What is the value of the LTI opportunity?** The LTI entitlement of a senior executive is calculated as a percentage of fixed annual remuneration as follows:

- Chief Executive Officer: 125%
- other senior executives: 60%

The number of performance rights granted to a senior executive is then calculated by taking the relevant executive's fixed annual remuneration and multiplying it by the relevant LTI entitlement percentage, and dividing this by the Company's five day volume weighted average share price as at the effective date of the grant.

**What are the performance conditions?** Under all current grants of performance rights:

- 50% is subject to a relative TSR hurdle which provides an external measure in respect of share price growth and dividend income
- 50% is subject to an absolute EPS measure of performance

### TSR performance conditions

The Company's performance is given a percentile ranking having regard to its TSR performance compared with the TSR performance of other companies in the relevant comparator group (described below). The TSR performance conditions in relation to all grants of performance rights are:

TSR TARGET	PERCENTAGE OF PERFORMANCE RIGHTS IN TRANCHE AVAILABLE IN GIVEN YEAR THAT VESTS
The Company's TSR is less than the median TSR of the comparator companies	0%
The Company's TSR equals or exceeds performance of the median TSR of the comparator companies	50%
The Company's TSR ranks in third quartile of the comparator companies	Pro rata between 50% and 100% (2% increase for each higher percentile ranking)
The Company's TSR ranks in fourth quartile of the comparator companies	100%

### EPS performance conditions

EPS performance requirements are reviewed prior to each year's allocation of performance rights. The range of EPS growth reflects the Company's view of what is a reasonable long term target taking into account the structure of the markets in which the Company competes, category growth rates, prevailing market shares, operational performance trajectory and the expected level of reinvestment of earnings in the business.

EPS is calculated using continuing business earnings on a pre-significant items basis (adjusted for the related income tax (benefit)/expense), and using the weighted average number of ordinary shares on issue during the period for which earnings are calculated, to determine compound EPS growth.

The baseline EPS for the F15 grant of performance rights relates to the continuing business EPS for the 2014 financial year, and is disclosed in the table on page 45.

EPS performance requirements for each grant are shown in the table below:

EPS TARGET	PERCENTAGE OF PERFORMANCE RIGHTS IN TRANCHE AVAILABLE IN GIVEN YEAR THAT VESTS
The Company's compound EPS growth is less than 5.0%	0%
The Company's compound EPS growth equals 5.0%	50%
The Company's compound EPS growth is between 5.0% and 8.0%	Pro rata between 50% and 100%
The Company's compound EPS growth is equal to or exceeds 8.0%	100%

What is the TSR comparator group?	The comparator companies for unvested performance rights are the ASX 200, excluding financial services and resources companies. This is determined in respect of each grant of performance rights. The comparator companies selected are considered to be alternative investments for local and global investors, and represent companies likely to be impacted by structural and cyclical factors in a broadly similar way to the Company. Any companies that are merged, delisted or taken over during the vesting period will be removed from the comparator group and not replaced.																									
Why were these performance conditions chosen?	<p>TSR</p> <p>The Board considers that relative TSR is an appropriate performance hurdle because it links a proportion of each executive's remuneration to shareholder value and ensures that a benefit is only paid when there is a corresponding benefit to shareholders. The Board believes it appropriate to have half the performance rights in the TSR tranche vest if the Company's TSR performance equals the median TSR of the comparator companies as it provides motivation for the relevant senior executives to drive a competitive financial outcome which aligns with shareholder interests.</p> <p>EPS</p> <p>The Board believes that an EPS performance requirement:</p> <ul style="list-style-type: none"> <li>▪ as an absolute measure, provides senior executives with a performance goal over which they can exert some control</li> <li>▪ provides a good 'line of sight' between the actions of senior executives and the Company's results</li> <li>▪ is directly correlated with shareholder returns, so it complements the relative TSR performance requirement</li> </ul> <p>The current EPS hurdle range (5% to 8%) is seen by the Board as a view of what may potentially be attainable, given the Company generally has relatively high market shares in relatively low growth categories, whilst still remaining a stretch target to maximise performance and meet capital market expectations.</p> <p>The Board is of the opinion that, collectively, TSR and EPS performance is better correlated with senior executive performance over time and creates a better alignment between the senior executive's reward and shareholder interests.</p>																									
When is the LTI assessed?	Grants are tested at the end of a three year performance period. Each grant is tested again one year later should the performance rights fail to vest in whole or part at the first testing date. On retesting, the grant is tested against the same performance conditions, but measured over a four year period ending 30 June of that next financial year. The primary reason for a second testing date is to allow for the potential short term impacts that foreign exchange, sourcing costs and other variables can have on the Company's TSR and EPS as highlighted by the Company's past experience.																									
How is the LTI assessed?	<p>For the purpose of testing the achievement of the EPS hurdle, financial results are extracted by reference to the Company's audited financial statements. The use of financial statements ensures the integrity of the measure and alignment with the true financial performance of the Company.</p> <p>Relative TSR performance is verified by external consultants. This ensures that TSR is measured consistently and objectively across the comparator companies.</p>																									
When may the LTI vest?	<p>Based on the financial performance of the Company in the 2015 financial year, no performance rights vested in the Chief Executive Officer or other senior executives effective 30 June 2015. The maximum percentage of performance rights that may vest, subject to performance, in any one year is set out in the table below:</p> <table border="1" data-bbox="438 1388 1428 1579"> <thead> <tr> <th>VESTING DATE</th> <th>MAXIMUM % OF F12 GRANT<sup>1</sup></th> <th>MAXIMUM % OF F13 GRANT<sup>2</sup></th> <th>MAXIMUM % OF F14 GRANT</th> <th>MAXIMUM % OF F15 GRANT</th> </tr> </thead> <tbody> <tr> <td>30 June 2015</td> <td>100%</td> <td>100%</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>30 June 2016</td> <td>N/A</td> <td>100%</td> <td>100%</td> <td>N/A</td> </tr> <tr> <td>30 June 2017</td> <td>N/A</td> <td>N/A</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>30 June 2018</td> <td>N/A</td> <td>N/A</td> <td>N/A</td> <td>100%</td> </tr> </tbody> </table> <p><sup>1</sup> No shares vested under the 2012 financial year grant in respect of the Company's performance over the 2012 to 2014 financial years. The 2012 financial year grant was retested at the end of the 2015 financial year against the same performance conditions, but measured over the four year period ended 30 June 2015, did not satisfy either the EPS or TSR performance hurdles and accordingly lapsed</p> <p><sup>2</sup> No shares vested under the 2013 financial year grant in respect of the Company's performance over the 2013 to 2015 financial years. However, the 2013 financial year grant will be retested at the end of the 2016 financial year</p>	VESTING DATE	MAXIMUM % OF F12 GRANT <sup>1</sup>	MAXIMUM % OF F13 GRANT <sup>2</sup>	MAXIMUM % OF F14 GRANT	MAXIMUM % OF F15 GRANT	30 June 2015	100%	100%	N/A	N/A	30 June 2016	N/A	100%	100%	N/A	30 June 2017	N/A	N/A	100%	100%	30 June 2018	N/A	N/A	N/A	100%
VESTING DATE	MAXIMUM % OF F12 GRANT <sup>1</sup>	MAXIMUM % OF F13 GRANT <sup>2</sup>	MAXIMUM % OF F14 GRANT	MAXIMUM % OF F15 GRANT																						
30 June 2015	100%	100%	N/A	N/A																						
30 June 2016	N/A	100%	100%	N/A																						
30 June 2017	N/A	N/A	100%	100%																						
30 June 2018	N/A	N/A	N/A	100%																						
Does the Company pay any dividends on unvested LTIs?	As each performance right only gives the holder a contractual entitlement to one ordinary share in the Company, subject to the future satisfaction of certain financial hurdles, it is not regarded by the Board as appropriate for those rights to have an entitlement to receive dividends prior to vesting.																									
When does an LTI vest or lapse?	<p>Performance rights will lapse in accordance with the terms of the grant if performance hurdles are not achieved or if participants resign prior to the completion of required vesting periods.</p> <p>Where a participant leaves the Company as a result of death, disability, retrenchment, or other reason with the approval of the Board, subject to performance hurdles being met, the Board may determine the extent to which performance rights granted to the participant vest.</p> <p>In the event of a takeover offer for the Company, performance rights may, at the discretion of the Board, vest in accordance with an assessment of performance with the performance period pro rated to the date of the takeover offer. In the case of the CEO, in the event of a change of control of the Company by way of takeover, scheme of arrangement or other means, all performance rights granted to the CEO will vest in full, which has been a term of the CEO's employment since joining the Company in 2009.</p>																									

## REMUNERATION REPORT – AUDITED (CONTINUED)

A discussion of the Company's performance, specifically against the Company's earnings and the consequences of the Company's performance on shareholder value in the period from 1 July 2010 to 30 June 2015 is set out in section 4A of this report. The Company's performance is linked to vesting of LTI (and hence executive reward). Any performance rights which do not vest (either in whole or in part) following the three year performance period, are retested the following year against the same performance conditions, but measured over a four year performance period. The F12 financial year grant (retested on 1 July 2015) and the F13 financial year grant (tested on 1 July 2015) did not vest on the test date because the Company's performance was such that the required hurdles were not satisfied – a more detailed discussion is set out in section 4C of this report.

Details of the number of performance rights which have been granted and the extent (if any) to which they have vested are also set out in section 4C of this report. The Company values all performance rights granted under the PRP in accordance with relevant Australian Accounting Standards.

Does the Company have a policy in relation to hedging and margin lending arrangements?	<p>The Company's Guidelines for Dealing in Securities prohibit any employee who has been granted performance rights from entering into a transaction to limit the economic risk of such performance rights, whether through a derivative, hedge or other similar arrangement.</p> <p>In addition, non-executive directors and senior executives are required to inform the Board of the existence of any margin lending arrangements in respect of shares in the Company which a non-executive director or senior executive has a relevant interest in, where those shares are offered as security for the lending arrangement. No margin lending arrangements are currently in place to which a non-executive director or senior executive is a party.</p> <p>The Company treats compliance with this policy as a serious issue and takes appropriate measures to ensure the policy is adhered to, requiring non-executive directors and senior executives to confirm in writing their compliance with this policy on an annual basis. Any employee found to have breached this policy will be subject to appropriate sanctions, which could include termination of employment.</p>
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### E. Combined strategic incentive and retention awards

In July 2014, certain senior executives were granted one-off combined incentive and retention awards structured to align the executive's commitment with the strategic review being undertaken by the Company and, in particular, to encourage executives to work towards achieving the Company's divestment objectives. The incentive and retention awards were a cash-based reward opportunity, dependent on one or more the following conditions:

- 1 pre-determined divestment objectives reflecting the importance of the strategic review for the Company; and
- 2 the executive remaining employed with the Company during and beyond the time of the strategic review and committing additional time and resources as required to assist the Company in achieving its divestment objectives.

The Board had ultimate responsibility for assessing the award of incentive and retention payments. Following the successful completion of the strategic review and divestment of the Brand Collective and Workwear operating groups, the Board determined on 29 May 2015 that the Company's divestment objectives were successfully achieved and that the vesting of the remaining incentive and retention awards should be accelerated. In making this determination, the Board recognised the significant contributions made by the executive team in achieving these divestment objectives, the speed with which the divestments were executed and the quantum of the net proceeds received which enabled the Company to report a positive net debt position as at 30 June 2015. On 24 August 2015, the Board determined to calculate the amount of the incentive and retention award due to D C Muscat based on his current remuneration as Chief Financial Officer of the Company. There are no outstanding incentive and retention awards. Details of the amounts of each award are disclosed in the remuneration table on pages 49 of this Remuneration Report.

### Service agreements

The remuneration and other terms of employment for the Chief Executive Officer and other senior executives are formalised in service agreements. Each of these agreements provides for the payment of a fixed annual remuneration component comprising of a base salary, motor vehicle/or allowance and superannuation contributions, the provision of performance related cash bonuses (STIs) (as disclosed on page 41 in this report), and participation in the Company's employee LTI plan (as disclosed on page 41 to 44 in this report).

General information regarding the duration of each agreement, the periods of notice required to terminate the agreement and the termination payments provided for under the service agreements are summarised below.

#### Duration of service agreements

The service agreements with senior executives are ongoing until terminated by either party.

#### Notice periods and payments on termination

The service agreements provide for termination payments to be made in certain circumstances. In particular, the service agreements of the Chief Executive Officer and each of the other senior executives permit termination, other than for cause, on giving a minimum of three to six months' notice. In accordance with Sections 200A to 200J of the Corporations Act 2001, the maximum termination payment payable by the Company without shareholder approval to any senior executive is capped at 12 months' average fixed annual remuneration ('FAR').

In order to protect the Company's business interests, the Chief Executive Officer, Mr Bortolussi is prohibited from engaging in any activity that would compete with the Company for a period of one year from the date his employment with the Company ceases.

Relevant terms of the service agreements of the Chief Executive Officer and the other senior executives are set out in the following table:

	DATE OF CONTRACT	NOTICE PERIOD – COMPANY	TERMINATION PAYMENT ENTITLEMENT <sup>1</sup>	NOTICE PERIOD – EMPLOYEE
<b>Current senior executives</b>				
D L Bortolussi Chief Executive Officer and Acting Group General Manager, Underwear	25 August 2014	6 months	12 months FAR	6 months
P Gould Group General Manager, Sheridan	20 December 2013	6 months	12 months FAR	6 months
D C Muscat Chief Financial Officer	16 February 2015	3 months	12 months FAR	3 months
I J Shannon Group General Manager, Tontine & Dunlop Flooring	25 November 2014	3 months	12 months FAR	3 months
<b>Former senior executives</b>				
M W Cloughton Group General Manager, Workwear	28 August 2012	3 months	12 months FAR	3 months
A M Heraghty Group General Manager, Underwear	23 November 2012	3 months	12 months FAR	3 months
C E Jones Group General Manager, Workwear	16 October 2014	1 week	1 week's FAR	1 month
M C Matthews Group General Manager, Brand Collective	28 August 2012	3 months	12 months FAR	3 months
J C Pollaers Chief Executive Officer	21 August 2012	6 months	12 months FAR + vesting of performance rights in the event of fundamental change <sup>2</sup>	6 months

<sup>1</sup> Termination payment entitlement is calculated including payment in lieu of notice based on the applicable minimum notice period

<sup>2</sup> The circumstances in which performance rights could vest on termination for fundamental change included delisting or material diminution of the Chief Executive Officer's roles or responsibilities. Mr Pollaers' employment did not terminate for reasons of fundamental change

#### 4. COMPANY PERFORMANCE AND OUTCOMES FOR SENIOR EXECUTIVE REMUNERATION

##### A. Company performance

A review of the Company's operations during the 2015 financial year and of the results of those operations and financial position of the Company is contained in the Operating and Financial Review on pages 8 to 18 of the Annual Report.

The table below sets out the Company's financial performance over the past five years. The Company's 2015 and 2014 financial performance is stated both on a reported and a continuing business basis. The Company's 2011 - 2013 financial performance is stated on a reported basis.

	2015 (CONTINUING)	2014 (CONTINUING)	2014 (REPORTED)	2013 (REPORTED)	2012 (REPORTED)	2011 (REPORTED)
Net sales revenue (\$m)	789.7	749.2	1,322.1	1,273.3	1,322.7	1,614.6
EBIT (\$m) <sup>1</sup>						
- Reported	(84.8)	57.2	(209.9)	122.1	(404.9)	(62.3)
- Before significant items <sup>2</sup>	64.2	67.5	91.2	122.1	129.1	186.2
NPAT (\$m) <sup>3</sup>						
- Reported	(107.0)	34.8	(224.5)	73.8	(450.7)	(131.9)
- Before significant items <sup>2</sup>	37.5	35.7	53.0	73.8	72.8	103.4
EPS (cents) <sup>4</sup>						
- Reported	(11.7)	3.8	(24.6)	8.1	(49.1)	(14.2)
- Before significant items <sup>2</sup>	4.1	3.9	5.8	8.1	7.9	11.1
Dividends per share (cents)	-	2.0	2.0	5.0	4.5	6.2
Year end share price (\$) <sup>5</sup>	0.32	0.55	0.55	0.70	0.50	0.69
TSR (%) <sup>6</sup>	(41.8)	(17.7)	(17.7)	50.0	(22.3)	(18.0)

<sup>1</sup> Earnings before interest and tax

<sup>2</sup> Before the impact of other expenses and other income that are individually significant as disclosed in Note 6 to the financial statements. Earnings excluding such amounts are considered by the Board to be a better basis for comparison from period to period as well as more comparable with future performance. They are also the primary measure of earnings considered by management in operating the business and by the Board in determining dividends

<sup>3</sup> Net profit/(loss) after tax after deducting non-controlling interest



## REMUNERATION REPORT – AUDITED (CONTINUED)

- 4 EPS has been calculated based on the weighted average number of shares outstanding for the period  
 5 The 30 June 2010 financial year end share price was \$0.89  
 6 TSR is a measure of the return to shareholders provided by movements in the Company's share price plus any dividends paid during the relevant financial period and reinvested in Company shares, expressed as a percentage of investment

Over 2011 to 2015, the Company's reported sales declined materially as a result of business divestments, most recently the sales of Workwear and Brand Collective in December 2014, a change in strategy at one of the Company's major customers from 2011 and challenging retail and business conditions.

EBIT before significant items declined due principally to divestments, increased levels of promotional and clearance activity, currency devaluation net of price increases, a shift in mix towards channels and businesses with higher cost to serve, and increased investment in brands, new categories and capability.

The decline in NPAT before significant items was less than the decline in EBIT before significant items over the last five years due to lower net interest costs, resulting from lower net debt over the period and improved pricing and commercial terms following refinancing of the syndicated debt facility in the 2014 financial year. The effective tax rate has also slightly decreased over the relevant period.

A dividend moratorium was imposed for the second half of the 2014 financial year to assist with restoring balance sheet strength following an increase in net debt during the year related to reduced earnings, higher working capital and capital expenditure, acquisitions and additional restructuring costs. Following a subsequent reduction to lower levels of net debt, the moratorium was maintained in 2015 due to the transition costs associated with the divestments, continued challenging trading conditions and currency devaluation and volatility.

The decrease in the share price and dividends per share has resulted in a total shareholder return for the 2015 financial year of negative 41.8%.

Significant items are other expenses that are individually significant, as disclosed in Note 6 to the financial statements. Significant items over the last five years have mainly related to the impairment of intangible assets and restructuring costs.

### B. Short term performance and STI payments for the 2015 financial year

In light of the earnings result in the 2015 financial year, the Board determined that it would be inappropriate to award any STI payment (neither any business component, nor any personal component) to the Chief Executive Officer or any other senior executive for the 2015 financial year other than the Group General Manager, Tontine & Dunlop Flooring, who received 50% of his maximum STI performance as a result of the Tontine & Dunlop Flooring growing 2015 EBIT by more than 16% and exceeding certain pre-determined targets. The 2015 financial year STI program and payments relevant to the Chief Executive Officer and other senior executives are summarised below<sup>1</sup>:

	EFFECTIVE DATE OF GRANT	PERCENTAGE OF STI PAYABLE %	PERCENTAGE OF STI NOT AWARDED %	MINIMUM TOTAL VALUE OF STI \$	MAXIMUM TOTAL VALUE OF STI \$
<b>Current senior executives</b>					
D L Bortolussi Chief Executive Officer and Acting Group General Manager, Underwear	1 July 2014	0	100	Nil	1,200,000
P Gould Group General Manager, Sheridan	1 July 2014	0	100	Nil	256,087
D C Muscat Chief Financial Officer	1 July 2014	0	100	Nil	253,950
I J Shannon Group General Manager, Tontine & Dunlop Flooring	1 July 2014	50	50	Nil	198,000
<b>Former senior executives</b>					
M W Cloughton Group General Manager, Workwear	1 July 2014	0	100	Nil	306,661
A M Heraghty Group General Manager, Underwear	1 July 2014	0	100	Nil	400,611
C E Jones Group General Manager, Workwear	N/A	N/A	N/A	Nil	Nil
M C Matthews Group General Manager, Brand Collective	1 July 2014	0	100	Nil	288,619
J C Pollaers Chief Executive Officer	1 July 2014	0	100	Nil	1,400,000

<sup>1</sup> The terms and conditions attached to the F15 grant are set out on page 41 in this report

### C. Long term performance and LTI awards for the 2015 financial year

None of the 2012 or 2013 financial year grant of performance rights vested under the Company's LTI plan following the end of the 2015 financial year as neither the EPS nor TSR hurdles were met (see the discussion of "When may the LTI vest?" on page 43 in this report for further details). The alignment of the Company's LTI plan with the generation of shareholder value is demonstrated by the fact that performance rights under the Company's LTI plan have not vested in any of the past five financial years (with the exception of performance rights granted as part of sign on arrangements, which have been previously disclosed in the 2013 and 2014 Remuneration Reports).

Details of the number of performance rights which have been granted and the extent (if any) to which they have vested are set out in the table following. The Company values and discloses all performance rights granted under the PRP in accordance with relevant Australian Accounting Standards.

#### Long term incentives on issue

The following equity grants were made to the Chief Executive Officer and other senior executives<sup>1</sup>:

	NUMBER AND NATURE OF COMPENSATION INSTRUMENT GRANTED	FINANCIAL YEAR	COMMENCEMENT DATE OF PERFORMANCE MEASUREMENT PERIOD	GRANT DATE OF PERFORMANCE RIGHT	PERCENTAGE OF GRANT VESTED %	PERCENTAGE OF GRANT FORFEITED %	FUTURE FINANCIAL YEARS THAT GRANT WILL BE PAYABLE	MINIMUM TOTAL VALUE OF GRANT \$	MAXIMUM TOTAL VALUE OF GRANT <sup>2</sup> \$
<b>Current senior executives</b>									
D L Bortolussi	476,490 performance rights	2012	01/07/2011	14/12/2011	Nil	100%	N/A	Nil	Nil
	651,527 performance rights	2013	01/07/2012	21/08/2012	Nil	Nil	2015/16	Nil	273,641
	693,538 performance rights	2014	01/07/2013	13/12/2013	Nil	Nil	2016/17	Nil	260,077
	2,845,220 performance rights	2015	01/07/2014	16/02/2015	Nil	Nil	2017/18	Nil	876,328
P Gould	369,282 performance rights	2014	01/07/2013	13/12/2013	Nil	Nil	2016/17	Nil	138,481
	485,747 performance rights	2015	01/07/2014	16/02/2015	Nil	Nil	2017/18	Nil	149,610
D C Muscat	481,696 performance rights	2015	01/07/2014	16/02/2015	Nil	Nil	2017/18	Nil	148,362
I J Shannon	375,569 performance rights	2015	01/07/2014	16/02/2015	Nil	Nil	2017/18	Nil	115,675
<b>Former senior executives</b>									
M W Cloughton <sup>3</sup>	416,326 performance rights	2013	01/07/2012	21/08/2012	Nil	100%	N/A	Nil	Nil
	443,151 performance rights	2014	01/07/2013	13/12/2013	Nil	100%	N/A	Nil	Nil
A M Heraghty <sup>4</sup>	358,209 performance rights	2012	01/07/2011	14/12/2011	Nil	100%	N/A	Nil	Nil
	543,857 performance rights	2013	01/07/2012	21/08/2012	Nil	100%	N/A	Nil	Nil
	578,918 performance rights	2014	01/07/2013	13/12/2013	Nil	100%	N/A	Nil	Nil
M C Matthews <sup>5</sup>	391,837 performance rights	2013	01/07/2012	21/08/2012	Nil	100%	N/A	Nil	Nil
	417,080 performance rights	2014	01/07/2013	13/12/2013	Nil	100%	N/A	Nil	Nil
J C Pollaers <sup>6</sup>	2,016,949 performance rights	2013	01/07/2012	21/08/2012	Nil	100%	N/A	Nil	Nil
	2,528,902 performance rights	2014	01/07/2013	24/10/2013	Nil	100%	N/A	Nil	Nil

<sup>1</sup> The terms and conditions attached to the F12, F13, F14 and F15 grants are set out on pages 41 to 44 in this report

<sup>2</sup> The fair value of performance rights as at the date of their grant has been determined in accordance with AASB 2 *Share-based Payment*. The fair value in respect of the grant having an effective date of 1 July 2011 is \$0.42 per share. The fair value in respect of the grant having an effective date of 1 July 2012 is \$0.42 per share. The fair value in respect of the F14 grant having a grant date of 24 October 2013 and an effective date of 1 July 2013 is \$0.485 per share (TSR \$0.37, EPS \$0.60). The fair value in respect of the F14 grant having a grant date at 13 December 2013 and an effective date of 1 July 2013 is \$0.375 per share (TSR \$0.25, EPS \$0.50). The fair value of these equity investments is calculated for the Company by an independent expert. The fair value in respect of the grant having an effective date of 1 July 2014 is \$0.308 per share (TSR \$0.192, EPS \$0.423)

<sup>3</sup> All unvested performance rights issued to M W Cloughton were forfeited upon cessation of his employment on 7 November 2014

<sup>4</sup> All unvested performance rights issued to A M Heraghty were forfeited upon cessation of his employment on 30 January 2015

<sup>5</sup> All unvested performance rights issued to M C Matthews were forfeited upon cessation of his employment on 1 December 2014

<sup>6</sup> All unvested performance rights issued to J C Pollaers were forfeited upon cessation of his employment on 7 July 2014

During the financial year, the Company did not grant any options or rights to the Chief Executive Officer or other senior executives in addition to the performance rights summarised in the previous table.

## REMUNERATION REPORT – AUDITED (CONTINUED)

Long term incentives – movements during the 2015 financial year

The following table sets out details of any movement in performance rights on issue to the Chief Executive Officer and other senior executives and the number of rights held by such persons during the reporting period:

	BALANCE AT 1 JULY 2014	GRANTED	VESTED EXERCISED	LAPSED FORFEITED	BALANCE AT 30 JUNE 2015
<b>Current senior executives</b>					
<b>D L Bortolussi</b>					
Number	1,821,555	2,845,220	Nil	476,490	4,190,285
Value	\$735,273	\$876,328		\$201,555	\$1,410,046
<b>P Gould</b>					
Number	369,282	485,747	Nil	Nil	855,029
Value	\$138,481	\$149,610			\$288,091
<b>D C Muscat</b>					
Number	Nil	481,696	Nil	Nil	481,696
Value	\$0	\$148,362			\$148,362
<b>I J Shannon</b>					
Number	Nil	375,569	Nil	Nil	375,569
Value	\$0	\$115,675			\$115,675
<b>Former senior executives</b>					
<b>M W Cloughton<sup>1</sup></b>					
Number	859,477	Nil	Nil	859,477	Nil
Value	\$341,039			\$341,039	
<b>A M Heraghty<sup>2</sup></b>					
Number	1,480,984	Nil	Nil	1,480,984	Nil
Value	\$597,036			\$597,036	
<b>M C Matthews<sup>3</sup></b>					
Number	808,917	Nil	Nil	808,917	Nil
Value	\$320,977			\$320,977	
<b>J C Pollaers<sup>4</sup></b>					
Number	4,545,851	Nil	Nil	4,545,851	Nil
Value	\$2,073,636			\$2,073,636	
<b>Total senior executives</b>					
Number	9,886,066	4,188,232	Nil	8,171,719	5,902,579
Value	\$4,206,442	\$1,289,975		\$3,534,243	\$1,962,174

<sup>1</sup> All unvested performance rights issued to M W Cloughton were forfeited upon cessation of his employment on 7 November 2014

<sup>2</sup> All unvested performance rights issued to A M Heraghty were forfeited upon cessation of his employment on 30 January 2015

<sup>3</sup> All unvested performance rights issued to M C Matthews were forfeited upon cessation of his employment on 1 December 2014

<sup>4</sup> All unvested performance rights issued to J C Pollaers were forfeited upon cessation of his employment on 7 July 2014

## D. Total senior executive remuneration

Details of the remuneration paid to the Chief Executive Officer and the other senior executives for the 2015 financial year (and prior financial year) are set out in the following table, calculated in accordance with the relevant accounting standards. All values are in Australian dollars unless otherwise stated.

		SHORT TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS		SHARE BASED PAYMENTS	TERMINATION BENEFITS <sup>5</sup>	TOTAL	VALUE OF PERFORMANCE RIGHTS AS % OF TOTAL	
		FIXED SALARY <sup>1</sup>	RETENTION PAYMENTS <sup>2</sup>	INCENTIVE PAYMENTS	NON-MONETARY BENEFITS <sup>3</sup>	SUPER-ANNUATION BENEFITS					RETIREMENT PAYMENTS
		\$	\$		\$	\$	\$	\$	\$	%	
<b>Current senior executives</b>											
D L Bortolussi <sup>6</sup>	2015	1,240,998	1,200,000		38,584	25,000	-	360,711	-	2,865,293	12.6
Chief Executive Officer & Acting Group General Manager, Underwear	2014	743,715	-		45,613	25,000	-	97,951	-	912,279	10.7
P Gould <sup>7</sup>	2015	368,419	256,086		27,397	37,029	-	65,257	-	754,188	8.3
Group General Manager, Sheridan	2014	367,027	-		27,460	36,060	-	15,387	-	445,934	3.5
D C Muscat <sup>8</sup>	2015	193,210	84,650		15,221	6,966	-	49,454	-	349,501	14.1
Chief Financial Officer	2014	-	-		-	-	-	-	-	-	-
I J Shannon <sup>9</sup>	2015	142,509		99,000	21,449	16,733	-	38,558	-	318,249	12.1
Group General Manager, Tontine & Dunlop Flooring	2014	-	-	-	-	-	-	-	-	-	-
<b>Total remuneration – current senior executives</b>											
	2015	<b>1,945,136</b>	<b>1,540,736</b>	<b>99,000</b>	<b>102,651</b>	<b>85,728</b>	<b>-</b>	<b>513,980</b>	<b>-</b>	<b>4,287,231</b>	<b>12.0</b>
	2014	1,110,742	-	-	73,073	61,060	-	113,338	-	1,358,213	8.3
<b>Former senior executives</b>											
M W Cloughton <sup>10</sup>	2015	132,198	766,652		10,577	8,814	-	(69,207)	-	849,034	(8.2)
Group General Manager, Workwear	2014	473,598	-		30,000	25,000	-	43,836	-	572,434	7.7
A M Heraghty <sup>11</sup>	2015	250,844	200,305		61,562	14,583	-	(90,408)	154,081	590,967	(15.3)
Group General Manager, Underwear	2014	567,776	-		96,398	25,000	-	79,328	-	768,502	10.3
C E Jones <sup>12</sup>	2015	39,500	-		-	2,961	-	-	-	42,461	0.0
Group General Manager, Workwear	2014	-	-		-	-	-	-	-	-	-
M C Matthews <sup>13</sup>	2015	126,193	408,877		11,809	12,500	-	(65,136)	-	494,243	(13.2)
Group General Manager, Brand Collective	2014	424,969	-		30,000	25,000	-	41,257	-	521,226	7.9
J C Pollaers <sup>14</sup>	2015	(13,888)	-		1,960	4,854	-	-	-	(7,074)	0.0
Chief Executive Officer	2014	1,362,740	-		24,190	25,000	-	(42,778)	1,400,000	2,769,152	(1.5)
<b>Total remuneration – senior executives</b>											
	2015	<b>2,479,983</b>	<b>2,916,570</b>	<b>99,000</b>	<b>188,559</b>	<b>129,440</b>	<b>-</b>	<b>289,229</b>	<b>154,081</b>	<b>6,256,862</b>	<b>4.6</b>
	2014	3,939,825	-	-	253,661	161,060	-	234,981	1,400,000	5,989,527	3.9

- Includes movements in annual leave and long service leave provisions and excludes fringe benefits tax paid or payable relating to fringe benefits granted by the Company
- Incentive payments refer to the payments made as a result of the vesting of each of the combined strategic incentive and retention awards made to certain executives. Each of these awards vested in full, with the exception of A M Heraghty's award where 25% vested, with the remaining 75% being forfeited on his resignation. Further details in relation to these incentive payments are found on page 44 in this report
- Non-monetary benefits include contractual allowances, such as motor vehicle allowances, novated lease payments or relocation benefits (if any). Amounts disclosed for remuneration of senior executives exclude insurance premiums paid by the Consolidated Entity in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers, including, among others, the named senior executives. Due to confidentiality obligations and undertakings of the policy, the premium paid cannot be disclosed. No amount has been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists
- To the extent required by the Australian Accounting Standards, remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the financial year (ie awards under the LTI plan). The fair value of equity instruments which do not vest during the reporting period is required to be determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of performance rights as at the date of their grant has been determined in accordance with AASB 2 *Share-based Payment*. The fair value in respect of the grant having an effective date of 1 July 2011 is \$0.42 per share. The fair value in respect of the grant having an effective date of 1 July 2012 is \$0.42 per share. The fair value in respect of the F14 grant having a grant date of 24 October 2013 and an effective date of 1 July 2013 is \$0.485 per share (TSR \$0.37, EPS \$0.60). The fair value in respect of the F14 grant having a grant date at 13 December 2013 and an effective date of 1 July 2013 is \$0.375 per share (TSR \$0.25, EPS \$0.50). The fair value of these equity investments is calculated for the Company by an independent expert. In relation to J C Pollaers, the (\$42,778) reflects a write back of historical expenses relating to the TSR component of the F13 grant as the service condition was not met, net of expenses relating to the F14 component of sign on rights granted in F13. The fair value in respect of the grant having an effective date of 1 July 2014 is \$0.308 per share (TSR \$0.192, EPS \$0.423)
- The 2014 figure in this column represents the payment to J C Pollaers on the cessation of his employment, excluding accrued annual leave entitlements
- D L Bortolussi was appointed as Chief Executive Officer on 26 August 2014, having previously held the role of Chief Financial & Operating Officer. D L Bortolussi was also appointed as Acting Group General Manager, Underwear effective 31 January 2015 following the resignation of A M Heraghty
- Effective 2 December 2014, the Sheridan Tontine operating group was separated, creating Sheridan as a stand alone reporting segment. P Gould ceased as Group General Manager, Sheridan Tontine on 2 December 2014 and commenced as Group General Manager, Sheridan on the same date

## REMUNERATION REPORT – AUDITED (CONTINUED)

- 8 D C Muscat was appointed as Chief Financial Officer on 17 February 2015. His disclosed remuneration relates only to the period he held this role
- 9 I J Shannon was appointed as Group General Manager, Tontine & Dunlop Flooring on 2 December 2014, being the date on which Tontine & Dunlop Flooring was created as a stand alone reporting segment. His disclosed remuneration relates only to the period he held this role
- 10 M W Cloughton resigned as Group General Manager, Workwear effective 7 November 2014
- 11 A M Heraghty resigned as Group General Manager, Underwear effective 30 January 2015. The termination payment to Mr Heraghty is payment in lieu of notice, as a result of the Company requiring Mr Heraghty not to work his three month contractual notice period following his resignation on 26 January 2015
- 12 C E Jones was appointed to the role of Group General Manager, Workwear effective 7 November 2014 and ceased in that role on 1 December 2014, being the date on which the divestment of the Workwear group completed
- 13 M C Matthews ceased as Group General Manager, Brand Collective on 1 December 2014, being the date on which the divestment of the Brand Collective operating group completed
- 14 J C Pollaers ceased as Chief Executive Officer on 7 July 2014

### 5. NON-EXECUTIVE DIRECTORS' REMUNERATION

#### A. Board policy on non-executive directors' remuneration

Non-executive directors are provided with formal letters of appointment prior to commencing their directorship. Their tenure with the Company is also governed by the Company's Constitution and the Australian Securities Exchange Listing Rules, which provide that all non-executive directors are subject to shareholder re-election every three years.

Non-executive directors' fees, including committee fees, are set by the Board within the maximum aggregate annual amount approved by shareholders. Currently, this amount is \$2,000,000 per annum, which was approved by shareholders at the Company's 2010 Annual General Meeting. The fees paid to non-executive directors are set at levels which reflect the responsibilities and time commitment required from each director to discharge their duties. As a result, non-executive director fee levels do not incorporate an at risk component. This enables directors to maintain independence and impartiality when making decisions affecting the future direction of the Company. Fee levels are set having regard to independent advice and the fees paid by comparable companies. The Nomination Committee makes recommendations to the Board on the total level of remuneration of the Chairman and other non-executive directors, including any additional fees payable to directors for membership of Board committees.

The Board, through the auspices of the Nomination Committee, reviews periodically its approach to non-executive director remuneration to ensure it remains in line with general industry practice and reflects proper compensation for duties undertaken. In setting fee levels, the Nomination Committee takes into account:

- the Company's existing remuneration policies
- independent remuneration consultants' advice
- fees which are paid by comparable companies
- the level of remuneration necessary to attract and retain directors of appropriate experience, qualifications and time commitment

The fees paid to non-executive directors were last adjusted with effect from 1 July 2012 (when they were reduced by 25 %).

The fees payable in the 2015 financial year (which are set inclusive of statutory superannuation contributions) were as follows:

	BASE REMUNERATION	COMMITTEE FEES
Chairman	\$318,750	No committee fees payable
Other non-executive directors	\$112,500	\$22,500 for the Chairman and \$11,250 for other members of the Audit, Business Risk and Compliance Committee \$15,000 for the Chairman and \$7,500 for other members of the Remuneration Committee

Directors are also entitled to be reimbursed for all business related expenses, including travel on Company business, as may be incurred in the discharge of their duties in accordance with rule 8.3(e) of the Company's Constitution.

Non-executive directors are not entitled to receive retirement benefits, other than superannuation contributions.

P H Bush received no additional remuneration in consideration for him taking on the office of Executive Chairman for the period from 7 July 2014 to 26 August 2014.

## B. Remuneration paid

Details of non-executive directors' remuneration for the 2015 financial year are set out in the following table:

		SHORT TERM PAYMENTS		POST EMPLOYEE BENEFITS	TOTAL <sup>1</sup>
		CASH	SHARES	SUPERANNUATION CONTRIBUTIONS	
		\$	\$	\$	\$
P H Bush	<b>2015</b>	291,096	N/A	27,654	318,750
Chairman	2014	291,762	N/A	26,988	318,750
S T Goddard	<b>2015</b>	104,067	N/A	30,933	135,000
	2014	110,000	N/A	25,000	135,000
K L Grant <sup>2</sup>	<b>2015</b>	109,589	N/A	10,411	120,000
	2014	40,838	N/A	3,777	44,615
J S King	<b>2015</b>	119,863	N/A	11,387	131,250
	2014	124,719	N/A	11,531	136,250
H E C Nash <sup>3</sup>	<b>2015</b>	112,443	N/A	10,682	123,125
	2014	91,533	N/A	8,467	100,000
L B Nicholls AO <sup>4</sup>	<b>2015</b>	123,858	N/A	11,767	135,625
	2014	82,695	N/A	7,660	90,355
Other former non-executive directors	<b>2015</b>	-	N/A	-	-
	2014	109,840	N/A	10,160	120,000
<b>Total</b>	<b>2015</b>	<b>860,916</b>	<b>N/A</b>	<b>102,834</b>	<b>963,750</b>
	2014	851,387	N/A	93,583	944,970

1 Amounts disclosed for remuneration of directors exclude insurance premiums paid by the Consolidated Entity in respect of directors' and officers' liability insurance contracts which cover, among others, current and former directors of the Company. Due to confidentiality obligations and undertakings of the policy, the premium paid cannot be disclosed. No amount has been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists

2 K L Grant was appointed as a director of the Company on 18 February 2014

3 H E C Nash was appointed as a director of the Company on 28 August 2013

4 L B Nicholls AO was appointed as a director of the Company on 24 October 2013

## 6. KEY MANAGEMENT PERSONNEL DISCLOSURES

### A. Material contracts with the Company

No director or other KMP has entered into a material contract with the Company or the Consolidated Entity since the end of the previous financial year and there were no material contracts involving director or other KMP interests existing at the end of the 2015 financial year.

A number of the directors of the Company are also directors of other companies. On occasions, the Company or the Consolidated Entity may purchase goods and services or lease properties from or supply goods and services to these companies. These transactions are undertaken on normal commercial terms and conditions and the directors and other KMP do not directly influence these transactions.

### B. Loans with the Company

No director or other KMP has entered into a loan made, guaranteed or secured, directly or indirectly, by the Company or the Consolidated Entity since the end of the previous financial year and there were no such loans involving directors or other KMP existing at the end of the 2015 financial year.

## REMUNERATION REPORT – AUDITED (CONTINUED)

### C. Movements in shares

The movement during the year in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP including their related parties, is as follows:

	HELD AT 30 JUNE 2014	PURCHASES	RECEIVED ON VESTING OF PERFORMANCE RIGHTS	SALES	HELD AT 30 JUNE 2015
<b>Current non-executive directors</b>					
P H Bush	10,000	-	-	-	10,000
S T Goddard	25,000	-	-	-	25,000
K L Grant	-	19,500	-	-	19,500
J S King	25,000	-	-	-	25,000
H E C Nash	20,000	-	-	-	20,000
L B Nicholls AO	25,925	-	-	-	25,925
<b>Current senior executives</b>					
D L Bortolussi	200,000	-	-	-	200,000
P Gould	400	-	-	-	400
D C Muscat	-	-	-	-	-
I J Shannon	12,690	-	-	-	12,690
<b>Former senior executives</b>					
M W Cloughton <sup>1</sup>	-	-	-	-	N/A
A M Heraghty <sup>2</sup>	-	-	-	-	N/A
C E Jones <sup>3</sup>	-	-	-	-	N/A
M C Matthews <sup>4</sup>	-	-	-	-	N/A
J C Pollaers <sup>5</sup>	1,242,712	-	-	-	N/A

1 M W Cloughton ceased as Group General Manager, Workwear on 7 November 2014

2 A M Heraghty ceased as Group General Manager, Underwear on 30 January 2015

3 C E Jones ceased as Group General Manager, Workwear on 1 December 2014

4 M C Matthews ceased as Group General Manager, Brand Collective on 1 December 2014

5 J C Pollaers ceased as Chief Executive Officer on 7 July 2014

## DIRECTORS' REPORT

This Directors' Report is signed in accordance with a resolution of the directors.

Dated at Melbourne this 25<sup>th</sup> day of August 2015.



**Peter Bush**  
Chairman



**David Bortolussi**  
Chief Executive Officer

## LEAD AUDITOR'S INDEPENDENCE DECLARATION

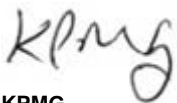
Under Section 307C of the Corporations Act 2001



To: the Directors of Pacific Brands Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



**KPMG**



**Alison Kitchen**  
Partner

Melbourne  
25 August 2015

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# FINANCIAL STATEMENTS TO SHAREHOLDERS

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

	NOTE	CONSOLIDATED	
		2015 \$'000	2014 \$'000 RESTATED <sup>1</sup>
<b>Continuing operations</b>			
Sales revenue	4	789,681	749,250
Cost of sales		(401,018)	(374,796)
<b>Gross profit</b>		<b>388,663</b>	<b>374,454</b>
Other income	4	768	11,855
Freight and distribution expenses		(64,310)	(66,053)
Sales and marketing expenses		(194,748)	(174,130)
Administrative expenses		(66,140)	(67,784)
Other expenses	6	(149,062)	(21,162)
<b>Results from operating activities</b>		<b>(84,829)</b>	<b>57,180</b>
Financial income		1,637	2,440
Financial expenses		(14,505)	(20,220)
<b>Net financing costs</b>		<b>(12,868)</b>	<b>(17,780)</b>
<b>Profit/(loss) before income tax (expense)/benefit</b>		<b>(97,697)</b>	<b>39,400</b>
Income tax (expense)/benefit	25	(9,258)	(4,601)
<b>Profit/(loss) from continuing operations</b>		<b>(106,955)</b>	<b>34,799</b>
<b>Discontinued operations</b>			
Profit/(loss) from discontinued operations, net of tax	7	9,221	(259,267)
<b>Profit/(loss)</b>		<b>(97,734)</b>	<b>(224,468)</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in fair value of cash flow hedges, net of tax		15,255	(28,801)
Foreign currency translation differences		5,540	3,630
Transfer of foreign currency translation differences on disposal of subsidiary		2,806	-
<i>Items that will not be reclassified to profit or loss</i>			
Defined benefit superannuation plan actuarial gains/(losses), net of tax		(119)	330
<b>Other comprehensive income/(loss), net of tax</b>		<b>23,482</b>	<b>(24,841)</b>
<b>Total comprehensive income/(loss)</b>		<b>(74,252)</b>	<b>(249,309)</b>
<b>Earnings/(loss) per share from continuing operations:</b>			
Basic EPS	3	(11.7) cents	3.8 cents
Diluted EPS	3	(11.7) cents	3.8 cents

<sup>1</sup> Comparatives have been restated to reflect the continuing operations. Refer Note 7 for details of discontinued operations

The Statement of Comprehensive Income is to be read in conjunction with the notes to the Financial Statements set out on pages 59 to 84.

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

		CONSOLIDATED	
	NOTE	2015 \$'000	2014 \$'000
<b>Current assets</b>			
Cash and cash equivalents	15	80,111	95,657
Trade and other receivables	8	93,786	145,672
Inventories	9	131,147	280,044
Prepayments		6,230	12,729
Current tax assets		8,842	15,667
<b>Total current assets</b>		<b>320,116</b>	<b>549,769</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	33,855	57,540
Investment accounted for using the equity method	7	9,607	8,292
Intangible assets	12	215,380	350,440
Deferred tax assets	26	19,575	34,968
<b>Total non-current assets</b>		<b>278,417</b>	<b>451,240</b>
<b>Total assets</b>		<b>598,533</b>	<b>1,001,009</b>
<b>Current liabilities</b>			
Trade and other payables	10	92,232	129,106
Current tax liabilities		1,347	2,687
Provisions	13	32,464	52,823
<b>Total current liabilities</b>		<b>126,043</b>	<b>184,616</b>
<b>Non-current liabilities</b>			
Trade and other payables	10	990	1,392
Interest-bearing loans and borrowings	15	79,168	344,750
Provisions	13	17,354	21,434
<b>Total non-current liabilities</b>		<b>97,512</b>	<b>367,576</b>
<b>Total liabilities</b>		<b>223,555</b>	<b>552,192</b>
<b>Net assets</b>		<b>374,978</b>	<b>448,817</b>
<b>Equity</b>			
Share capital	20	323,128	455,128
Other reserves	21	39,328	15,433
Retained earnings/(accumulated losses)		12,522	(21,744)
<b>Total equity</b>		<b>374,978</b>	<b>448,817</b>

The Statement of Financial Position is to be read in conjunction with the notes to the Financial Statements set out on pages 59 to 84.

# FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

	NOTE	CONSOLIDATED	
		2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		1,110,091	1,466,553
Cash paid to suppliers and employees		(1,044,720)	(1,449,666)
Income taxes received/(paid)		2,743	(26,906)
Interest paid		(15,403)	(19,826)
Interest received		1,637	2,440
<b>Net cash from/(used in) operating activities</b>	17	<b>54,348</b>	<b>(27,405)</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of businesses (net of cash disposed and disposal costs)	7	218,853	-
Proceeds from disposal of property, plant and equipment		526	22,734
Acquisition of businesses and investments (net of cash acquired)	7	(11,297)	(23,682)
Acquisition of property, plant and equipment		(17,717)	(22,188)
Distributions received from joint venture		1,233	231
<b>Net cash from/(used in) investing activities</b>		<b>191,598</b>	<b>(22,905)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	2,328
Repayments of loans and borrowings (including refinancing costs)		(266,500)	(2,162)
Payments for shares bought to allocate to employees		-	(595)
Dividends paid	22	-	(41,077)
<b>Net cash from/ (used in) financing activities</b>		<b>(266,500)</b>	<b>(41,506)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(20,554)</b>	<b>(91,816)</b>
Cash and cash equivalents at the beginning of the year		95,657	186,884
Effect of exchange rate fluctuations on cash held		5,008	589
<b>Cash and cash equivalents at the end of the year</b>		<b>80,111</b>	<b>95,657</b>

The Statement of Cash Flows is to be read in conjunction with the notes to the Financial Statements set out on pages 59 to 84.

Refer Note 7 for cash flows of discontinued operations.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	SHARE CAPITAL \$'000	OTHER RESERVES <sup>2</sup> \$'000	RETAINED EARNINGS/ (ACCUMULATED LOSSES) \$'000	TOTAL EQUITY \$'000
<b>Balance at 1 July 2013</b>	695,000	34,663	7,621	737,284
Profit/(loss)	-	-	(224,468)	(224,468)
Total other comprehensive income/(loss)	-	(24,841)	-	(24,841)
<b>Total comprehensive income/(loss)</b>	-	(24,841)	(224,468)	(249,309)
<b>Transactions with owners recorded directly in equity</b>				
Issue of ordinary shares	2,328	-	-	2,328
Share capital reduction <sup>1</sup>	(242,200)	-	242,200	-
Appropriation to profits reserve	-	47,097	(47,097)	-
On market purchase of performance rights	-	(595)	-	(595)
Dividends recognised	-	(41,077)	-	(41,077)
Cost of share based payments	-	186	-	186
<b>Balance at 30 June 2014</b>	455,128	15,433	(21,744)	448,817
<b>Balance at 1 July 2014</b>	455,128	15,433	(21,744)	448,817
Profit/(loss)	-	-	(97,734)	(97,734)
Total other comprehensive income/(loss)	-	23,482	-	23,482
<b>Total comprehensive income/(loss)</b>	-	23,482	(97,734)	(74,252)
<b>Transactions with owners recorded directly in equity</b>				
Share capital reduction <sup>1</sup>	(132,000)	-	132,000	-
Cost of share based payments	-	413	-	413
<b>Balance at 30 June 2015</b>	323,128	39,328	12,522	374,978

1 On 17 February 2014 and on 30 June 2015, the Company reduced its share capital by \$242.2 million and \$132.0 million respectively for the amounts that were lost or not represented by available assets, reflecting impairment charges incurred by the Company during the year ended 30 June 2014 and 30 June 2015 respectively. This had the effect of eliminating accumulated losses at the Company and Consolidated Entity level. There was no impact on the number of issued shares or on the Statement of Comprehensive Income or Statement of Cash Flows

2 For a description of the nature and purpose of, and key movements in, other reserves, refer Note 21

The Statement of Changes in Equity is to be read in conjunction with the notes to the Financial Statements set out on pages 59 to 84.

# FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2015

### OVERVIEW

1 Overview of financial statements

59

### GROUP PERFORMANCE

2 Segment reporting

59

3 Earnings/(loss) per share

61

4 Revenue and other income

61

5 Expenses by nature

61

6 Significant items

62

### DIVESTMENTS AND ACQUISITIONS

7 Discontinued and acquired operations

62

### WORKING CAPITAL

8 Trade and other receivables

63

9 Inventories

64

10 Trade and other payables

64

### FIXED ASSETS AND IMPAIRMENT

11 Property, plant and equipment

64

12 Intangible assets and impairment

64

### PROVISIONS

13 Provisions

66

14 Employee benefits

66

### DEBT

15 Net debt

68

16 Financing facilities

68

17 Notes to the statement of cash flows

69

18 Operating leases (including commitments)

69

### CAPITAL MANAGEMENT

19 Capital management

69

20 Share capital

70

21 Other reserves

70

22 Dividends

71

### FINANCIAL RISK MANAGEMENT

23 Financial risk management

72

A. Currency and interest rate risk (market risk)

72

B. Credit risk

73

C. Liquidity risk

74

24 Fair value of financial instruments

74

### TAXATION

25 Income tax expense/(benefit)

75

26 Recognised deferred tax assets and liabilities

75

### OTHER INFORMATION

27 Auditors' remuneration

76

28 Company disclosures

76

29 Events subsequent to balance date

77

### GROUP STRUCTURE AND RELATED PARTIES

30 Controlled entities and equity investments

77

31 Key management personnel disclosures

78

### SUMMARY OF ACCOUNTING POLICIES

32 Significant accounting policies

78

33 Accounting estimates and judgements

84

## NOTE 1 – OVERVIEW OF FINANCIAL STATEMENTS

Pacific Brands Limited ('Company') is a company domiciled in Australia. The consolidated Financial Statements of the Company as at and for the year ended 30 June 2015 comprise the Company and its controlled entities (together referred to as the 'Consolidated Entity'). The Financial Statements of the Consolidated Entity were authorised for issue by the directors on 25 August 2015.

### A. Statement of compliance

The Financial Statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board and the Corporations Act 2001, and comply with International Financial Reporting Standards adopted by the International Accounting Standards Board. The Company is a for-profit entity for the purpose of preparing the Financial Statements.

### B. Basis of preparation

These Financial Statements are presented in Australian dollars, and are prepared on the historical cost basis except for loans and receivables that are measured at amortised cost, derivative financial instruments that are stated at their fair value, assets held for sale remeasured to fair value and the defined benefit superannuation plan asset/liability that is measured as the fair value of plan assets less the present value of the defined benefit obligation.

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 (as in force on 30 June 2015) and in accordance with that Class Order, amounts in the Financial Statements and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### C. Significant accounting policies

A summary of significant accounting policies is contained in Note 32.

## NOTE 2 – SEGMENT REPORTING

The Consolidated Entity has three reportable segments, as described below. The segments are organised along category lines and are managed separately. For each segment, the Consolidated Entity's Chief Executive Officer ('CEO') reviewed internal management reports on at least a monthly basis during the financial year. The following summary describes the operations in each reportable segment:

Underwear	Marketer, distributor, importer, manufacturer, wholesaler and retailer of underwear, intimate apparel, socks, hosiery and outerwear. Brands include Bonds, Berlei, Jockey, Explorer, Razzamatatz, Voodoo, Rio, Holeproof and Red Robin
Sheridan	Marketer, distributor, importer, wholesaler and retailer of bed linen, towels and accessories. Brands include Sheridan and Actil
Tontine and Dunlop Flooring	Marketer, distributor, importer, manufacturer and wholesaler of pillows, bed accessories, carpet underlay and hard flooring. Brands include Tontine, Dunlop Flooring, Dunlopillo, Fairydown, Heartridge and Crestell

Other operations are comprised of unallocated corporate expenses.

### Changes to segments and segment reporting

Subsequent to the divestment of the Workwear and Brand Collective segments on 1 December 2014, management reorganised its reporting segments in line with changes to internal management structures. Tontine was separated from Sheridan and combined with Dunlop Flooring (previously reported in 'other operations') to create a new reporting segment, Tontine and Dunlop Flooring.

An element of corporate and shared services costs previously allocated to the discontinued operations will be unrecovered following full transition of each business. Prior year comparatives have been restated in order to reallocate these 'stranded' fixed costs (primarily fixed property and IT infrastructure) from discontinued operations into continuing operations. This resulted in a reduction in earnings before interest and tax ('EBIT') for the year ended 30 June 2014 to the Underwear (\$2.3 million), Sheridan (\$0.2 million) and Tontine and Dunlop Flooring (\$0.1 million) segments.

Segment performance is measured based on segment EBIT before significant items as disclosed in Note 6 ('significant items') as included in the internal management reports that were reviewed by the Consolidated Entity's CEO during the financial year. EBIT before significant items is used as the key measure of performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within these industries.

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### Segment performance and financial position

	UNDERWEAR \$'000	SHERIDAN \$'000	TONTINE AND DUNLOP FLOORING \$'000	OTHER OPERATIONS \$'000	TOTAL \$'000
<b>2015</b>					
<b>Revenue</b>					
Sales revenue	508,640	191,315	89,726	-	789,681
Other income	(2)	547	41	182	768
Total segment revenue	508,638	191,862	89,767	182	790,449
<b>Results</b>					
EBIT before significant items	60,183	13,939	5,852	(15,741)	64,233
Impairment of goodwill and brand names	(81,341)	(35,060)	(16,306)	-	(132,707)
Other significant items	(3,567)	-	(9,285)	(3,503)	(16,355)
EBIT after significant items	(24,725)	(21,121)	(19,739)	(19,244)	(84,829)
<b>Assets and liabilities</b>					
Segment assets	365,811	110,296	27,500	94,926	598,533
Segment liabilities	(106,871)	(21,402)	(11,539)	(83,743)	(223,555)
Depreciation and amortisation	6,297	2,793	1,555	2,455	13,100
Capital expenditure	11,024	2,837	1,724	1,461	17,046
	UNDERWEAR \$'000	SHERIDAN \$'000	TONTINE AND DUNLOP FLOORING \$'000	OTHER OPERATIONS \$'000	TOTAL \$'000
<b>2014 Restated</b>					
<b>Revenue</b>					
Sales revenue	489,152	169,680	90,418	-	749,250
Other income	11,272 <sup>1</sup>	503	69	11	11,855
Total segment revenue	500,424	170,183	90,487	11	761,105
<b>Results</b>					
EBIT before significant items	61,265 <sup>2</sup>	12,769 <sup>2</sup>	5,030 <sup>2</sup>	(11,567)	67,497
Other significant items	8,332 <sup>1</sup>	(420)	(1,335)	(16,894)	(10,317)
EBIT after significant items	69,597	12,349	3,695	(28,461)	57,180
<b>Assets and liabilities</b>					
Segment assets <sup>3, 4</sup>	434,296	122,182	52,588	391,943	1,001,009
Segment liabilities <sup>3, 4</sup>	(56,245)	(18,533)	(8,657)	(468,757)	(552,192)
Depreciation and amortisation	5,801	2,601	2,007	2,739	13,148
Capital expenditure <sup>4</sup>	8,115	4,296	945	8,832	22,188

1 Includes profit on sale of the Wentworthville property (\$10.8 million). Refer Note 6

2 Prior year comparatives have been restated to account for 'stranded' fixed costs. This resulted in a reduction in earnings before interest and tax ('EBIT') for the 2014 year to the Underwear (\$2.3 million), Sheridan (\$0.2 million) and Tontine and Dunlop Flooring (\$0.1 million) segments

3 2014 amounts for assets and liabilities have been restated to exclude intercompany balances

4 Other operations includes discontinued operations for the 2014 assets and liabilities disclosures

### Geographic concentration

	TOTAL REVENUE		TOTAL ASSETS	
	2015 \$'000	2014 \$'000 RESTATED	2015 \$'000	2014 \$'000
Australia	718,745	685,468	526,661	866,419
Rest of world	71,704	75,637	71,872	134,590
	790,449	761,105	598,533	1,001,009

### Customer concentration

The Consolidated Entity supplies five major corporate wholesale customers which in combination account for 46.2% of sales revenue (2014: 51.1%), of which two corporate customers each account for greater than 10% of sales revenue.

### NOTE 3 – EARNINGS/(LOSS) PER SHARE

	2015 CENTS PER SHARE	2014 CENTS PER SHARE
Earnings/(loss) per share for continuing operations	(11.7)	3.8
Earnings/(loss) per share for discontinued operations	1.0	(28.4)
	2015 \$'000	2014 \$'000
<b>Basic and diluted earnings/(loss) used as the numerator</b>		
Profit/(loss) from continuing operations	(106,955)	34,799
Profit/(loss) from discontinued operations	9,221	(259,267)
	2015	2014
<b>Weighted average number of shares used as the denominator</b>		
Number for basic earnings per share:		
Ordinary shares at 1 July	20 917,226,291	912,915,695
Effect of shares issued <sup>1</sup>	-	1,051,077
Weighted average ordinary shares at 30 June	917,226,291	913,966,772

<sup>1</sup> Shares issued as part of the Company's reinstatement of the Dividend Reinvestment Plan in 2014

Performance rights that are not likely to vest and performance rights that have an anti-dilutive impact have been excluded from the calculation.

### NOTE 4 – REVENUE AND OTHER INCOME

	CONSOLIDATED	
	2015 \$'000	2014 \$'000 RESTATED
<b>Sales revenue</b>	<b>789,681</b>	749,250
<b>Other income</b>		
Profit on sale of properties <sup>1</sup>	-	10,845
Royalties	705	452
Sundry income	63	558
Total other income	768	11,855
Total revenue and other income	790,449	761,105

<sup>1</sup> 2014 includes profit on sale of the Wentworthville property (\$10.8 million). Refer Note 6

### NOTE 5 – EXPENSES BY NATURE

	CONSOLIDATED	
	2015 \$'000	2014 \$'000 RESTATED
<b>Personnel expenses (continuing business)</b>		
Wages, salaries and employee benefits	176,690	174,850
Contribution to defined superannuation contribution plans	10,637	10,769
Defined benefit superannuation plan superannuation expense	242	318
Share based payments – equity settled	413	186
Total personnel expenses	187,982	186,123
<b>Depreciation and amortisation (continuing business)</b>		
Depreciation of property, plant & equipment	12,724	12,629
Amortisation of software assets	376	519
Total depreciation and amortisation	13,100	13,148



## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### NOTE 6 – SIGNIFICANT ITEMS

The Statement of Comprehensive Income includes the following individually significant items:

	2015			2014 RESTATED		
	BEFORE TAX \$'000	TAX \$'000	AFTER TAX \$'000	BEFORE TAX \$'000	TAX \$'000	AFTER TAX \$'000
<b>Significant items in other income</b>						
Profit on sale of properties	-	-	-	(10,845)	-	(10,845)
<b>Significant items in other expenses</b>						
Impairment of goodwill and brand names	132,707	-	132,707	-	-	-
Other asset impairments and writedowns relating to each function:						
Cost of sales	9,285	(2,786)	6,499	467	(140)	327
Freight and distribution expenses	-	-	-	300	(90)	210
Sales and marketing expenses	-	-	-	420	(126)	294
Administrative expenses	7,070	(1,780)	5,290	925	(278)	647
	16,355	(4,566)	11,789	2,112	(634)	1,478
Restructuring costs relating to each function:						
Freight and distribution expenses	-	-	-	4,568	(1,370)	3,198
Sales and marketing expenses	-	-	-	2,964	(889)	2,075
Administrative expenses	-	-	-	11,518	(3,463)	8,055
	-	-	-	19,050	(5,722)	13,328
	149,062	(4,566)	144,496	21,162	(6,356)	14,806
<b>Significant items in income tax expense</b>						
Settlement of outstanding tax matter	-	-	-	-	(3,036)	(3,036)
	149,062	(4,566)	144,496	10,317	(9,392)	925

### NOTE 7 – DISCONTINUED AND ACQUIRED OPERATIONS

#### Discontinued operations – Workwear and Brand Collective

On 26 August 2014, the Consolidated Entity entered into a sale agreement to dispose of the Workwear segment, and on 18 November 2014 entered into various sale agreements to dispose of the Brand Collective segment. Both disposals completed on 1 December 2014 and were part of the Consolidated Entity's strategy to simplify and focus its portfolio to maximise shareholder value. The current and prior period consolidated Statements of Comprehensive Income and associated notes have been restated to separate discontinued operations from continuing operations.

Gross proceeds on the sale of the Workwear segment, including completion adjustments, were \$187.8 million and a gain on sale of \$37.6 million (post tax) was recognised during the period, which reflects a partial reversal of impairments of brand names recognised during the year ended 30 June 2014. Gross proceeds on the sale of the Brand Collective segment, including completion adjustments, were \$40.1 million and a loss on sale of \$29.9 million (post tax) was recognised during the period.

#### Results of discontinued operations

	2015 \$'000	2014 \$'000
Revenue	236,239	575,712
Expenses	(234,403)	(600,537)
Impairment of goodwill and brand names	-	(242,297)
<b>Results from operating activities</b>	<b>1,836</b>	<b>(267,122)</b>
Income tax (expense)/ benefit	(388)	7,855
<b>Results from operating activities, net of tax</b>	<b>1,448</b>	<b>(259,267)</b>
Reversal of previously recognised impairment of brand names	34,628	-
Loss on sale of discontinued operations	(34,651)	-
Income tax on sale of discontinued operations	7,796	-
<b>Profit/(loss) from discontinued operations, net of tax</b>	<b>9,221</b>	<b>(259,267)</b>

## Cash flows from discontinued operations

The following cash flows have been included in the cash flow statement on page 56.

	2015 \$'000	2014 \$'000
Net cash flows used in operating activities	<b>(16,730)</b>	(30,562)
Net cash flows used in investing activities	<b>(824)</b>	(31,392)
<b>Net cash flows used in discontinued operations</b>	<b>(17,554)</b>	(61,954)

## Effect of Workwear and Brand Collective disposal on financial position of the Consolidated Entity

	2015 \$'000
Trade and other receivables	<b>77,647</b>
Inventories	<b>163,567</b>
Other assets	<b>8,047</b>
Property, plant and equipment	<b>13,319</b>
Intangible assets	<b>645</b>
Investments accounted for using the equity method	<b>9,415</b>
Deferred tax assets	<b>12,041</b>
Trade and other payables	<b>(45,666)</b>
Current tax liabilities	<b>(218)</b>
Provisions	<b>(22,922)</b>
<b>Net assets disposed</b>	<b>215,875</b>
Consideration received, net of disposal costs	<b>(220,690)</b>
Cash and cash equivalents disposed of	<b>1,837</b>
<b>Net cash inflows during the year</b>	<b>(218,853)</b>

At the end of the financial year there was \$4.8 million net receivable associated with tax benefits and certain outstanding disposal costs.

## Acquired operations – Berlei international joint venture and Crestell

Effective from 1 April 2015, the Consolidated Entity acquired a 50% interest in the share capital of Berlei IP Limited, a Hong Kong incorporated entity, for a total investment cost of AUD \$9.6 million. Berlei IP Limited is a joint venture entity established to advance the Berlei brand worldwide in relation to intimate apparel, sportswear and other garments. The investment is classified as a joint venture and is equity accounted. The joint venture recognised an immaterial loss for the period from acquisition to 30 June 2015.

On 9 June 2015, the Consolidated Entity acquired the Crestell pillows and bedding accessories business for \$1.6 million, which included \$0.9 million of inventory and \$0.4 million of property, plant and equipment. This business will be integrated into the Tontine and Dunlop Flooring segment during the 2016 financial year.

## NOTE 8 – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Trade debtors before allowances <sup>1</sup>	<b>113,084</b>	183,348
Allowance for doubtful trade debtors	<b>(408)</b>	(1,569)
Allowance for rebates, trade allowances and settlement discounts	<b>(38,493)</b>	(41,279)
<b>Trade debtors</b>	<b>74,183</b>	140,500
Other debtors <sup>2</sup>	<b>19,603</b>	5,172
	<b>93,786</b>	145,672

1 Includes \$104.8 million gross which is part of the securitisation facility (2014: \$159.3 million) (refer Note 16 for further disclosures)

2 In 2014, fair value of forward exchange contracts was in a net credit position and included in other creditors and accruals (refer Note 10). 2015 includes the fair value of forward exchange contracts of \$13.1 million

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### NOTE 9 – INVENTORIES

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Raw materials	8,236	23,232
Work in progress	527	1,217
Finished goods	122,384	255,595
	<b>131,147</b>	<b>280,044</b>

### NOTE 10 – TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
<b>Current</b>		
Trade creditors	88,167	111,547
Other creditors and accruals <sup>1</sup>	4,065	17,559
	<b>92,232</b>	<b>129,106</b>
<b>Non-current</b>		
Other creditors <sup>1</sup>	990	1,392

<sup>1</sup> 2014 includes fair value of forward exchange contracts and interest rate swaps of \$11.5 million. Refer to Note 24

### NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Carrying amount at the beginning of the year	57,540	66,519
Additions/acquisitions	18,444	22,783
Disposals	(1,008)	(1,929)
Depreciation	(13,789)	(16,689)
Impairment	(14,308)	(13,153)
Derecognised on disposal of subsidiary	(13,319)	-
Effects of movements in foreign exchange	295	9
Carrying amount at the end of the year	<b>33,855</b>	<b>57,540</b>
Cost	117,218	149,357
Accumulated depreciation and impairment losses	(83,363)	(91,817)
<b>Balance at the end of the year</b>	<b>33,855</b>	<b>57,540</b>

### NOTE 12 – INTANGIBLE ASSETS AND IMPAIRMENT

	CONSOLIDATED				TOTAL \$'000
	GOODWILL \$'000	BRAND NAMES <sup>1</sup> \$'000	SOFTWARE \$'000	OTHER INTANGIBLE ASSETS \$'000	
<b>2015</b>					
Balance at 1 July 2014	44,232	303,385	1,688	1,135	350,440
Additions/acquisitions	300	-	232	-	532
Amortisation	-	-	(376)	-	(376)
Impairment	(44,702)	(88,005)	(912)	(1,135)	(134,754)
Derecognised on disposal of a subsidiary	-	-	(645)	-	(645)
Effects of movements in foreign exchange	170	-	13	-	183
Balance at 30 June 2015	-	<b>215,380</b>	-	-	<b>215,380</b>
<b>2014</b>					
Balance at 1 July 2013	176,090	403,365	3,461	1,177	584,093
Additions/acquisitions	10,008	-	227	1	10,236
Amortisation	-	-	(476)	(43)	(519)
Impairment	(142,317)	(99,980)	(1,526)	-	(243,823)
Effects of movement in foreign exchange	451	-	2	-	453
Balance at 30 June 2014	44,232	303,385	1,688	1,135	350,440

<sup>1</sup> Includes licenses

### Impairment tests for cash generating units ('CGUs') containing goodwill and indefinite life intangible assets

The Consolidated Entity has five CGUs and the carrying amounts of goodwill and indefinite life intangible assets (ie brand names) identified in each CGU are as follows:

	CONSOLIDATED			
	GOODWILL		BRAND NAMES <sup>1</sup>	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Underwear – key brands	-	-	192,300	192,300
Underwear – other brands	-	600	-	80,741
Sheridan	-	34,890	23,080	23,080
Tontine	-	-	-	7,264
Dunlop Flooring	-	8,742	-	-
	-	44,232	215,380	303,385

1 Includes licenses

### Cash generating units

Following a change in operating segments and related CGUs in the year ended 30 June 2015, Sheridan Tontine goodwill and brand names were separated into Sheridan and Tontine based on the Consolidated Entity's assessment of the relative value of each segment for goodwill and historical cost for brand names.

In addition, the Underwear CGU was separated into two CGUs, being 'Underwear - key brands' (Bonds, Berlei, Jockey, and Explorer) and 'Underwear - other brands'. This change follows an acceleration in the deviation in performance and outlook of these two groups of Underwear brands, and a reprioritisation of investment towards key brands. The allocation of brand names between the two new CGUs was based on historical cost.

Following these changes, the Consolidated Entity has five CGUs and the carrying amounts of goodwill and indefinite life intangible assets (ie brand names) identified in each CGU are shown above, incorporating current year impairments. Comparatives have been represented on a consistent basis.

### Valuation techniques and impairment testing

The recoverable amounts of the CGUs and related goodwill and brand names were determined having regard to the fair value less costs of disposal ('FVLCD') and value in use approaches using a combination of internal and external sources of information and analysis. The FVLCD approach is considered more appropriate for each of the CGUs while the Company continues to stabilise and improve the performance of its business and manage market challenges and uncertainties.

The FVLCD is based on a capitalisation of maintainable earnings (EBIT) approach less an allowance for costs to sell for all CGUs and in its entirety is categorised as level 3 of the fair value hierarchy. Maintainable EBIT was determined with regard to past experience, current performance and short term forecasts, and therefore are level 3 inputs of the fair value hierarchy.

Maintainable EBIT used to calculate FVLCD assumes that the Consolidated Entity's CGUs will benefit from the investments made in the current year to generate improved earnings outcomes from key brands. Future earnings outcomes, however, could be impacted by the material business risks detailed in the Operating and Financial Review on pages 16 and 17.

EBIT multiples were determined with the assistance of external input having regard to trading multiples of comparable entities and recent sale transactions for which information is readily available, and therefore are a combination of level 2 and level 3 inputs of the fair value hierarchy depending on whether the inputs are sourced from observable market data or unobservable inputs.

### Goodwill and brand name impairment charges

During the year, the Consolidated Entity recognised impairment losses with respect to 'Underwear – other brands' (\$81.3 million), Sheridan (\$35.1 million), Tontine (\$7.6 million) and Flooring (\$8.7 million) CGUs.

The impairments in 'Underwear – other brands' followed the change in CGUs and an assessment of related maintainable earnings and multiples taking into account current performance and outlook, including a material adverse change in foreign currency rates. The recoverable amount of the CGU has been determined to be equivalent to net working capital.

The impairment in Sheridan resulted from an assessment of maintainable earnings and multiples taking into account a material adverse change in foreign currency rates. The recoverable amount of the CGU has been determined to be equivalent to its carrying value of brand names and tangible net assets.

The impairments in Tontine followed the change in CGUs and an assessment of related maintainable earnings and multiples taking into account current performance and outlook, including a material adverse change in foreign currency rates. The recoverable amount of the CGU has been determined to be equivalent to net working capital.

The impairment in Flooring resulted from a decline in the assessed multiples range reflecting changes in competition and outlook. The recoverable amount of the CGU has been determined to be equivalent to net working capital.

Impairments of goodwill and brand names are recorded as other expenses in the Statement of Comprehensive Income (refer Note 6).

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### NOTE 13 – PROVISIONS

	NOTE	CONSOLIDATED	
		2015 \$'000	2014 \$'000
<b>Current</b>			
Employee benefits	14	21,161	27,109
Restructuring (including divestment provisions)		9,114	19,461
Other		2,189	6,253
		<b>32,464</b>	<b>52,823</b>
<b>Non-current</b>			
Employee benefits	14	3,712	4,260
Other		13,642	17,174
		<b>17,354</b>	<b>21,434</b>

#### Reconciliation

A reconciliation of the carrying amounts of each class of provision, except for employee benefits, is set out below:

	RESTRUCTURING		OTHER	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Carrying amount at the beginning of the year	19,461	3,300	23,427	18,395
Provisions recognised	11,626	46,628	4,646	6,057
Provisions utilised/disposed on divestment	(21,973)	(30,467)	(12,242)	(1,025)
Carrying amount at the end of the year	9,114	19,461	15,831	23,427

#### Other

Other provisions relate to straight lining of leases, make good provisions on leased premises, supplier rebates and claims and other administrative proceedings.

During 2015, the Consolidated Entity settled a claim with an International garment supplier in relation to a 12 year garment supply contract. The matter is now closed.

### NOTE 14 – EMPLOYEE BENEFITS

The present values of employee benefits not expected to be settled within 12 months of reporting date have been calculated using the following weighted assumptions:

	CONSOLIDATED	
	2015	2014
Future salary increases (per annum)	3.0%	3.0%
Discount rate (per annum)	4.0%	3.6%
Number of active defined benefit superannuation plan members	10	14
Weighted average duration of defined benefit superannuation plan (period)	6.5 years	7.9 years

#### A. Superannuation plans

The Consolidated Entity contributes to the Pacific Brands Superannuation Plan ('Plan'), consisting of a defined benefit section and a defined contribution section. Defined benefit superannuation plan members receive lump sum benefits on retirement, death, disablement or withdrawal based on years of service and final average salary. The defined benefit section of the Plan is closed to new members.

Plan assets are held in trusts which are subject to supervision by the Australian Prudential Regulation Authority. Responsibility for the governance of the Plan rests with the trustee of the Plan. Funding levels are reviewed regularly to ensure that vested benefits are adequately covered by Plan assets. The Plan's actuary reviews the Plan's financial position on an annual basis and advises management of appropriate contribution levels. Based on the latest actuarial review performed on 30 June 2015, the Consolidated Entity expects to make contributions of \$0.2 million in the 2016 financial year.

The Plan exposes the Consolidated Entity to risks of asset volatility and discount rate risk. The Plan's investment goals are to maximise returns subject to specific risk management policies, which permit investments in mutual funds and prohibit direct investments in debt and equity securities and derivative financial instruments. The policies address diversification by the use of mutual fund investments whose underlying investments are in domestic and international equity securities and domestic and international fixed income securities. These

The defined contribution section receives fixed contributions from the Consolidated Entity equivalent to its legal obligations. The Consolidated Entity's legal and constructive obligation is limited to these contributions.

Movements in the net defined benefit asset

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Present value of defined benefit obligation	5,360	6,108
Fair value of Plan assets	(6,063)	(6,969)
Net defined benefit asset at 30 June	(703)	(861)

Expenses/(income) recognised in the Statement of Comprehensive Income

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Current service cost	269	334
Net interest cost/(income)	(27)	(16)
	242	318

**B. Share based payments**

The Company has a share plan pursuant to which senior executives may acquire shares. This is the Performance Rights Plan, which is open to executive directors and other selected senior executives.

Performance Rights Plan ('PRP')

*General*

The PRP is the Company's long term incentive scheme for selected key senior executives. Under the PRP, eligible executives will be granted performance rights (each being an entitlement to a share), subject to the satisfaction of vesting conditions on terms and conditions determined by the Board. If the vesting conditions are satisfied, the performance rights vest and shares will be delivered to the executive. Other than the vesting conditions noted below, the performance rights granted are subject to service conditions.

*Vesting conditions*

*Total shareholder return performance conditions*

The performance conditions based on the relative total shareholder return ('TSR') of the Company are measured against a comparator group of companies. The comparator group of companies differs for each grant; explanation of the comparator groups of companies is contained on page 43 in the Remuneration Report. TSR is a measure of the return to shareholders provided by share price appreciation, plus reinvested dividends, expressed as a percentage of investment.

*Earnings per share performance conditions*

The range of earnings per share ('EPS') growth reflects the Company's view of what is a reasonable target value, taking into account the Company's market position, upside potential and capital market expectations. EPS is calculated using earnings before significant items and using the number of ordinary shares on issue. Significant items are disclosed in Note 6.

*Valuation*

The fair value of the performance rights was calculated by independent experts at the date of grant using a Monte Carlo simulation model and allocated to each reporting period evenly over the period from grant date to vesting date. The value of share based payments disclosed in Note 5 includes a portion of the fair value of the performance rights allocated to this year. In valuing the performance rights, market conditions have been taken into account.

	F15 GRANT	F14 GRANT (CEO)	F14 GRANT (OTHER)	F13 GRANT
<b>Fair value of performance rights and assumptions</b>				
Fair value at measurement date	\$0.31	\$0.49	\$0.38	\$0.42
Share price	\$0.46	\$0.72	\$0.62	\$0.59
Expected volatility	40%	40%	40%	42%
Performance right life (period)	3 years	3 years	3 years	3 years
Dividend yield (per annum)	3.5%	7.0%	8.0%	7.5%
Risk-free interest rate (per annum)	1.9%	3.0%	2.9%	2.9%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the performance rights), adjusted for any expected changes to future volatility due to publicly available information.

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### Grant of performance rights

The Board has approved the following grants of performance rights to employees, under the PRP. The movement in the number of performance rights to employees during the year is as follows:

	F15 GRANT <sup>1</sup>	F14 GRANT <sup>1</sup>	F13 GRANT <sup>1</sup>
1 July 2013	-	-	4,525,476
Granted	-	6,049,045	-
Exercised	-	-	-
Forfeited	-	(2,887,255)	(2,521,929)
30 June 2014	-	3,161,790	2,003,547
Granted	<b>5,125,257</b>	-	-
Exercised	-	-	-
Forfeited	-	<b>(1,439,149)</b>	<b>(1,352,020)</b>
<b>30 June 2015</b>	<b>5,125,257</b>	<b>1,722,641</b>	<b>651,527</b>

1 These grants consisted of two equal tranches with different vesting conditions, being (1) TSR and (2) EPS

The maximum percentage of the performance rights granted to date which may vest in favour of the senior executives is as follows:

VESTING DATE	MAXIMUM % OF F15 GRANT	MAXIMUM % OF F14 GRANT	MAXIMUM % OF F13 GRANT
30 June 2014	N/A	N/A	N/A
30 June 2015	N/A	N/A	100%
30 June 2016	N/A	100%	100%
30 June 2017	100%	100%	N/A
30 June 2018	100%	N/A	N/A

### NOTE 15 – NET DEBT

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Cash and cash equivalents	<b>80,111</b>	95,657
Interest bearing loans and borrowings	<b>(79,168)</b>	(344,750)
Net cash/(debt)	<b>943</b>	(249,093)

### NOTE 16 – FINANCING FACILITIES

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Secured bank overdraft facility, reviewed annually and payable at call:		
Amount used	-	-
Amount unused	<b>25,000</b>	35,000
	<b>25,000</b>	35,000
Secured bank loan and securitisation facilities with various maturity dates through to 2019 which may be extended by mutual agreement:		
Amount used	<b>80,000</b>	346,500
Amount unused	<b>185,000</b>	78,500
	<b>265,000</b>	425,000

The Consolidated Entity has a \$175 million syndicated debt facility (2014: \$250 million) secured with a fixed and floating charge over the assets of the Consolidated Entity comprising the following;

- A. Tranche 1 revolving credit facility of \$50 million maturing 31 January 2017
- B. Tranche 2 revolving credit facility of \$125 million maturing 31 January 2019

During the year the Consolidated Entity reduced the syndicated facility by \$75 million (Tranche 1).

The Consolidated Entity extended the maturity of its \$90 million securitisation facility from 31 January 2016 to 31 January 2018. Based on eligible receivables at 30 June 2015, \$89 million of the \$90 million securitisation facility is drawable. During the year the Consolidated Entity reduced the Securitisation facility by \$85 million.

## Securitisation facility

The trade debtors which have been securitised represent the Consolidated Entity's Australasian trade debtors and have been presented within the Consolidated Entity's trade debtors (refer Note 8). Debtors under this arrangement are securitised to a third party financier in exchange for the advance of an agreed amount that does not exceed the value of the receivables as determined under the securitisation agreement. The Consolidated Entity retains the obligation to collect the outstanding receivables.

The facility includes a number of undertakings that are typical of a facility of this type including a requirement to not dispose of any debtors which have been securitised under this arrangement.

## NOTE 17 – NOTES TO THE STATEMENT OF CASH FLOWS

	NOTE	CONSOLIDATED	
		2015 \$'000	2014 \$'000
<b>Profit/(loss) after income tax</b>		<b>(97,734)</b>	(224,468)
Add/(less) non-cash items			
Depreciation and amortisation		<b>14,165</b>	17,208
Cost of share based payments	5	<b>413</b>	186
Impairment of goodwill and brand names	6	<b>132,707</b>	242,297
Other asset impairments		<b>16,630</b>	23,110
Loss on sale of businesses and other assets		<b>(7,275)</b>	-
Profit on sale of properties		-	(10,674)
Profit from joint ventures		-	(875)
<b>Net cash from operating activities before change in assets and liabilities</b>		<b>58,906</b>	46,784
(Increase)/decrease in trade and other receivables		<b>(19,433)</b>	6,090
(Increase)/decrease in inventories		<b>(12,693)</b>	(51,053)
(Increase)/decrease in other assets		<b>3,626</b>	(2,749)
Increase/(decrease) in trade and other payables		<b>17,414</b>	(1,497)
Increase/(decrease) in tax assets and liabilities		<b>13,092</b>	(31,815)
Increase/(decrease) in restructuring provisions		<b>(13,088)</b>	16,161
Increase/(decrease) in employee benefits and other provisions		<b>6,524</b>	(9,326)
<b>Net cash from/(used in) operating activities</b>		<b>54,348</b>	(27,405)

## NOTE 18 – OPERATING LEASES (INCLUDING COMMITMENTS)

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
<b>Non-cancellable operating lease revenue commitments</b>		
Future operating lease commitments not provided for in the Financial Statements and payable:		
Within one year	<b>35,675</b>	51,475
One year or later and no later than five years	<b>84,639</b>	116,892
Later than five years	<b>11,002</b>	15,774
	<b>131,316</b>	184,141

The Consolidated Entity leases property under non-cancellable operating leases. Leases often provide the Consolidated Entity with a right of renewal at which time all terms are renegotiated. Lease payments generally comprise a base amount plus an incremental contingent rental. Contingent rentals are typically based on either movements in the Consumer Price Index or sales criteria. Where the incremental rentals are fixed, they are incurred evenly over the term of the lease. The Consolidated Entity has provided for these fixed increments (refer Note 13). During the year, an amount of \$39.9 million was recognised as an expense in the Statement of Comprehensive Income for the continuing business in relation to operating leases including certain outgoings (2014: \$33.3 million for the continuing business).

## NOTE 19 – CAPITAL MANAGEMENT

The Consolidated Entity's objectives when managing capital are to safeguard the entity's ability to operate as a going concern as well as optimising its weighted average cost of capital in order to maximise value for shareholders in the medium to longer term.

The Consolidated Entity monitors its capital structure on an ongoing basis in light of overall business objectives and prevailing economic conditions. In order to obtain an optimal capital structure, the Consolidated Entity will from time to time adjust the dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. During the 2014 year, the Company reinstated the Dividend Reinvestment Plan which resulted in an additional 4.3 million of new shares issued.

The capital position of the Consolidated Entity is monitored using Gearing, Net Debt, Interest Cover and Fixed Charge Cover ratios, which mostly align with externally imposed financial covenants. At balance date, these measures expressed before significant items were as follows:



## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

	2015	2014
Gearing	nm <sup>1</sup>	2.3x
Net Debt	nm <sup>1</sup>	36%
Interest Cover	7.3x	6.4x
Fixed charge Cover <sup>2</sup>	2.2x	2.2x

1 Not meaningful due to the net cash position at year end

2 Continuing business

Gearing is defined as Net Debt / EBITDA before certain significant items. Net Debt is calculated as total interest - bearing loans and borrowings (excluding capitalised borrowing costs) less cash and cash equivalents. The Net Debt ratio is defined as Net Debt / (Net Debt + Equity). Interest Cover is defined as EBITDA before certain significant items / Net Interest Expense. Net Interest Expense excludes any amortisation of deferred borrowing costs and unused line fees. Fixed Charge cover is defined as (EBITDA + rent expense) / (rent expense + interest expense).

### NOTE 20 – SHARE CAPITAL

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
<b>Share capital</b>		
<b>Ordinary shares, fully paid</b>		
917,226,291 shares at the beginning of the year (2014: 912,915,695)	455,128	695,000
Nil shares transferred from treasury shares (2014: 762,712)	-	-
Nil shares issued to employees (2014: 762,712)	-	-
Nil shares issued (2014: 4,310,596) <sup>1</sup>	-	2,328
Share capital reduction	(132,000)	(242,200)
917,226,291 fully paid ordinary shares at the end of the year (2014: 917,226,291)	323,128	455,128
<b>Treasury shares, fully paid</b>		
No shares at the beginning of the year (2014: 0)	-	-
Nil shares bought to allocate to employees (2014: 762,712)	-	-
Nil shares transferred to ordinary shares (2014: 762,712)	-	-
Nil shares at the end of the year (2014: 0)	-	-
	323,128	455,128

1 Shares issued as part of the Company's Dividend Reinvestment Plan

#### Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of the winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

#### Treasury shares

Treasury shares represent the ordinary shares held by the trustee of the Consolidated Entity's equity compensation plan. As at 30 June 2015, the Trust held none of the Company's shares (2014: 0).

### NOTE 21 – OTHER RESERVES

	CONSOLIDATED					
	EQUITY COMPEN- SATION RESERVE \$'000	FOREIGN CURRENCY TRANSLATION RESERVE \$'000	HEDGE RESERVE \$'000	DEFINED BENEFITS RESERVE \$'000	PROFITS RESERVE \$'000	TOTAL \$'000
<b>2015</b>						
Balance at 1 July 2014	5,020	(22,922)	(8,810)	(1,352)	43,497	15,433
Effective portion of net changes in fair value of cash flow hedges, net of tax	-	-	20,908	-	-	20,908
Net change in fair value of cash flow hedges transferred to inventories or profit and loss, net of tax	-	-	(5,653)	-	-	(5,653)
Defined benefit superannuation plan actuarial gains, net of tax	-	-	-	(119)	-	(119)
Foreign currency translation differences	-	5,540	-	-	-	5,540
Foreign currency differences on disposal of subsidiary	-	2,806	-	-	-	2,806
Total comprehensive income/(loss)	-	8,346	15,255	(119)	-	23,482
Cost of share based payments	413	-	-	-	-	413
Balance at 30 June 2015	5,433	(14,576)	6,445	(1,471)	43,497	39,328

	CONSOLIDATED					
	EQUITY COMPEN- SATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVE	DEFINED BENEFITS RESERVE	PROFITS RESERVE	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2014</b>						
Balance at 1 July 2013	5,429	(26,552)	19,991	(1,682)	37,477	34,663
Effective portion of net changes in fair value of cash flow hedges, net of tax	-	-	(7,420)	-	-	(7,420)
Net change in fair value of cash flow hedges transferred to inventories or profit and loss, net of tax	-	-	(21,381)	-	-	(21,381)
Defined benefit superannuation plan actuarial gains, net of tax	-	-	-	330	-	330
Foreign currency translation differences	-	3,630	-	-	-	3,630
Total comprehensive income/(loss)	-	3,630	(28,801)	330	-	(24,841)
Appropriation from retained earnings	-	-	-	-	47,097	47,097
On market purchase of performance rights	(595)	-	-	-	-	(595)
Dividends recognised	-	-	-	-	(41,077)	(41,077)
Cost of share based payments	186	-	-	-	-	186
Balance at 30 June 2014	5,020	(22,922)	(8,810)	(1,352)	43,497	15,433

The nature and purpose of reserves are:

#### Equity compensation reserve

The equity compensation reserve arises on the grant of performance rights to executives under the Performance Rights Plan and other compensation granted in the form of equity. Amounts are transferred out of the reserve and into share capital when the rights are exercised. Further information about equity compensation payments to employees is given in Note 14.

#### Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge the Consolidated Entity's net investment in foreign operations or the translation of foreign currency monetary items forming part of the net investment in foreign operations (refer Note 32(U)).

#### Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions (e.g. purchase of inventory) that have not yet occurred.

#### Defined benefits reserve

The defined benefits reserve records any remeasurements arising from the valuation of the Consolidated Entity's defined benefit superannuation plan (refer Note 32(Q)).

#### Profits reserve

A profits reserve has been created in certain entities within the Consolidated Entity. The balance represents an appropriation of amounts from retained earnings for the payment of future dividends.

## NOTE 22 – DIVIDENDS

Dividends recognised in the current year by the Company are:

	CENTS PER SHARE	TOTAL AMOUNT \$ MILLIONS	FRANKED/ UNFRANKED	DATE OF PAYMENT
<b>2015</b>				
Interim 2015 ordinary	-	-	-	-
Final 2014 ordinary	-	-	-	-
<b>2014</b>				
Interim 2014 ordinary	2.0	18.3	Franked	2 April 2014
Final 2013 ordinary	2.5	22.8	Franked	1 October 2013

Franked dividends declared or paid were franked at the tax rate of 30%.

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

The Directors have not declared a final dividend for the year ended 30 June 2015.

	COMPANY	
	2015 \$'000	2014 \$'000
<b>Dividend franking account</b>		
30% franking credits available to shareholders of the Company for subsequent financial years	<b>42,951</b>	41,563

The above available amounts are based on the balance of the dividend franking account at the end of the year adjusted for:

- franking debits that will arise from the payment of dividends recognised as a liability at the end of the year
- franking debits/credits that will arise from the receipt/payment of the current tax assets/liabilities
- franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the end of the year
- franking credits that the Company may be prevented from distributing in subsequent years

In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of \$43.0 million (2014: \$41.6 million) franking credits.

### NOTE 23 – FINANCIAL RISK MANAGEMENT

#### Overview

The Consolidated Entity has exposure to the following risks from its use of financial instruments:

- A. Currency and interest rate risk (market risk)
- B. Credit risk
- C. Liquidity risk

This note presents information about the Consolidated Entity's exposure to each of the above risks and its objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these Financial Statements.

#### A. Currency and interest rate risk (market risk)

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect profit or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. The Consolidated Entity enters into derivatives, and also incurs financial liabilities, in order to manage market risk. All such transactions are carried out within the guidelines set by the Board. The Consolidated Entity applies hedge accounting in order to manage volatility in profit or loss.

#### Currency risk

The Consolidated Entity is exposed to currency risk on purchases that are denominated in a currency other than the respective functional currencies of entities within the Consolidated Entity, primarily the US dollar ('USD'). As a result of the large purchases of inventories denominated in USD, the Statement of Financial Position and future profits can be significantly impacted by movements in the USD.

However, the Consolidated Entity hedges up to 80% of its estimated foreign currency exposure in respect of forecast purchases up to 12 months forward. The Consolidated Entity uses forward exchange contracts and other derivatives to hedge its currency risk. The following table sets out the weighted average contracted exchange rates, the gross value to be received under foreign currency contracts, the fair value of the foreign currency contracts and the settlement periods of outstanding contracts for the Consolidated Entity:

	2015			2014		
	WEIGHTED AVERAGE EXCHANGE RATE	AUD EQUIVALENT \$'000	FAIR VALUE \$'000	WEIGHTED AVERAGE EXCHANGE RATE	AUD EQUIVALENT \$'000	FAIR VALUE \$'000
<b>Maturing within one year</b>						
Buy US dollars	<b>0.802</b>	<b>249,138</b>	<b>13,134</b>	0.898	302,777	(11,465)

The net deferred exchange gains and losses on hedges outstanding at the end of the year are recognised in other debtors in Note 8 (2014: other creditors and accruals in Note 10). The timing of their anticipated recognition as part of inventory purchases is as follows:

	CONSOLIDATED NET GAINS/(LOSSES)	
	2015 \$'000	2014 \$'000
Within 6 months	<b>11,311</b>	(8,536)
6 – 12 months	<b>1,823</b>	(2,930)
More than 1 year	-	-

In addition to forward exchange contracts, the Consolidated Entity also has a number of other financial assets and financial liabilities that are denominated in USD, as follows:

	2015 \$'000	2014 \$'000
Cash and cash equivalents	12,341	12,336
Trade debtors	1,367	3,655
Trade creditors	(50,301)	(44,055)
Forward exchange contracts	13,134	(11,465)
Net exposure	(23,459)	(39,529)

Retranslating the assets and liabilities disclosed above for a 10% change in the value of the AUD against the USD at 30 June 2015 (holding all else constant) would have changed profit/(loss) before income tax and equity by the amounts shown below for the Consolidated Entity. Any foreign exchange exposures deemed to be translation risk exposures have been excluded from the analysis. The analysis is performed on the same basis as at 30 June 2014.

	PROFIT/(LOSS) BEFORE TAX 10% INCREASE \$'000	PROFIT/(LOSS) BEFORE TAX 10% DECREASE \$'000	EQUITY 10% INCREASE \$'000	EQUITY 10% DECREASE \$'000
30 June 2015	(680)	680	(26,236)	26,236
30 June 2014	(76)	76	(29,249)	29,249

### Interest rate risk

The Company hedges up to 50% of its exposure to changes in interest rates on its syndicated debt facility through interest rate swaps. Following the receipt of proceeds from the divestments of Workwear and Brand Collective, the net debt position of the Consolidated Entity reduced substantially. At 30 June 2015, the Consolidated Entity has a net cash position and has no open interest rate swaps.

At the balance date, the interest rate profile of the Consolidated Entity's interest-bearing financial instruments was:

	2015 WEIGHTED AVERAGE INTEREST RATE PA	2014 WEIGHTED AVERAGE INTEREST RATE PA
<b>Instruments with interest rate risk exposure</b>		
Cash and cash equivalents	1.9%	2.1%
Bank loans <sup>1</sup>	4.0%	5.0%

<sup>1</sup> After incorporating the effect of interest rate swaps in 2014. Refer 'Liquidity risk' for maturity profile of the above financial liabilities

The sensitivity analysis below has been determined based on the exposure of interest-bearing loans and borrowings, interest rate swaps and cash and cash equivalents to interest rates at the reporting date, assuming that the net balance at reporting date was held constantly throughout the financial year. The analysis is based off interest rate movements considered reasonable at year end but is not a forecast or prediction. The impact to profit/(loss) reflects the additional interest that would have been expensed had the change in basis points occurred throughout the financial year. The impact to equity reflects the impact of the change in interest rates on the valuation of interest rate swaps.

	PROFIT/(LOSS) BEFORE TAX		EQUITY BEFORE TAX	
	100BP INCREASE \$'000	100BP DECREASE \$'000	100BP INCREASE \$'000	100BP DECREASE \$'000
30 June 2015	-	-	-	-
30 June 2014	(1,258)	1,258	1,648	(1,671)

### B. Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument (eg trade debtor) fails to meet its contractual obligations, and arises principally from the Consolidated Entity's receivables from customers. As at 30 June 2015, the Consolidated Entity does not hold any collateral (of financial or non-financial assets) that it is permitted to sell or repledge in the event of default.

#### Trade and other receivables

The Consolidated Entity's exposure to credit risk is influenced mainly by the creditworthiness of each wholesale customer. The demographics of the Consolidated Entity's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk.

The Consolidated Entity has established a credit policy under which each new customer of the Consolidated Entity is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. This analysis incorporates external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from senior management. Customers that are identified as high risk are closely monitored and where appropriate placed on ordering restrictions (eg sales on a prepayment basis, reduced credit terms).

Goods are generally sold subject to retention of title clauses, so that in the event of non-payment the Consolidated Entity may have a secured claim. The Consolidated Entity does not require collateral in respect of trade and other receivables.

The Consolidated Entity supplies five major corporate wholesale customers which in combination account for 46.2% of sales revenue (2014: 51.1%), of which two corporate customers each account for greater than 10% of sales revenue.

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### Ageing and impairment losses

The ageing of the Consolidated Entity's trade debtors past due date at the reporting date was as follows:

	2015		2014	
	GROSS \$'000	IMPAIRMENT \$'000	GROSS \$'000	IMPAIRMENT \$'000
Not past due date	101,419	-	166,525	-
Past due 0-30 days	7,557	-	5,729	-
Past due more than 30 days	4,108	408	11,094	1,569

The Consolidated Entity has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The movement in the allowance for doubtful debts in respect of the Consolidated Entity's trade debtors during the year was as follows:

	CARRYING AMOUNT	
	2015 \$'000	2014 \$'000
Balance at 1 July	1,569	1,926
Impairment loss recognised	(569)	(1,355)
Allowance recognised in profit or loss	400	990
Effect of movements in foreign exchange	45	8
Divestment of Workwear and Brand Collective	(1,037)	-
Balance at 30 June	408	1,569

### C. Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity forecasts and monitors cash flow requirements. Typically, the Consolidated Entity ensures that it has sufficient available funds to meet expected operational expenses and the servicing of financial obligations when they become due and payable. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In doing so, the Consolidated Entity maintains a level of unused overdraft, securitisation and bank loan facilities. Refer to Note 16.

### NOTE 24 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below summarises the fair value of financial instruments. All financial instruments carried at fair value are valued in accordance with level 2 of the fair value hierarchy in that inputs are used other than quoted prices that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are:

	FAIR VALUE HIERARCHY LEVEL	CONSOLIDATED			
		30 JUNE 2015		30 JUNE 2014	
		CARRYING AMOUNT \$'000	FAIR VALUE \$'000	CARRYING AMOUNT \$'000	FAIR VALUE \$'000
<b>Assets carried at amortised cost</b>					
Cash and cash equivalents		80,111	80,111	95,657	95,657
Trade and other receivables		80,652	80,652	145,672	145,672
<b>Assets carried at fair value</b>					
Forward exchange contracts receivable	2	13,134	13,134	-	-
<b>Liabilities carried at amortised cost</b>					
Trade and other payables		93,222	93,222	118,289	118,289
Bank loans		79,168	79,168	344,750	344,750
<b>Liabilities carried at fair value</b>					
Interest rate swaps	2	-	-	743	743
Forward exchange contracts payable	2	-	-	11,466	11,466

#### Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows.

## Derivatives

The fair value of interest rate swaps is based on bank quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a relevant risk-free interest rate (based on government securities).

## Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## NOTE 25 – INCOME TAX EXPENSE/(BENEFIT)

	NOTE	CONSOLIDATED	
		2015 \$'000	2014 \$'000 RESTATED
<b>Current income tax expense</b>			
Current year		13,530	13,613
Overprovided in prior year		(1,137)	(1,119)
<b>Deferred income tax expense/(benefit)</b>			
Origination and reversal of temporary differences		(3,135)	(7,893)
<b>Total income tax expense in the Statement of Comprehensive Income</b>		<b>9,258</b>	<b>4,601</b>
<b>Reconciliation between income tax expense and profit/(loss) before income tax expense</b>			
<b>Profit/(loss) before income tax expense/(benefit)</b>		<b>(97,697)</b>	39,400
Income tax using Australian corporation tax rate of 30%		(29,309)	11,821
Adjustment in income tax expense due to:			
Share based payments		124	56
Non-deductible impairment of intangibles		39,811	-
Non-deductible impairment of other assets		340	
Non-assessable gains made in foreign jurisdictions		(392)	(64)
Profit on sale of properties		-	(3,254)
Settlement of outstanding tax matter	6	-	(3,036)
Sundry items (including effect of tax rates in foreign jurisdictions)		(179)	197
Over provided in prior year		(1,137)	(1,119)
<b>Total income tax expense on profit/(loss) before income tax expense/(benefit)</b>		<b>9,258</b>	<b>4,601</b>
<b>Deferred tax recognised directly in equity</b>			
Derivative financial instruments		6,538	(12,344)
Defined benefit superannuation plan actuarial gains/(losses)		(51)	141

## NOTE 26 – RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Trade and other receivables	1,066	1,088
Inventories	270	2,123
Property, plant and equipment	6,678	7,085
Provisions for employee benefits	7,175	8,796
Other provisions <sup>1</sup>	7,922	12,511
Derivative financial instruments <sup>2</sup>	(2,735)	3,776
Other items	(801)	(411)
<b>Net tax assets</b>	<b>19,575</b>	<b>34,968</b>

1 Includes defined benefit obligation remeasurements recognised directly in equity

2 Includes derivative financial instruments recognised directly in equity

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### NOTE 27 – AUDITORS’ REMUNERATION

	CONSOLIDATED	
	2015 \$	2014 \$
<b>Audit services</b>		
<b>Auditors of the Company – KPMG Australia:</b>		
Audit and review of financial statements	586,300	659,938
<b>Overseas KPMG firms:</b>		
Audit of financial statements	184,800	177,644
	<b>771,100</b>	<b>837,582</b>
<b>Other services</b>		
<b>Auditors of the Company – KPMG Australia:</b>		
Other assurance services <sup>1</sup>	5,000	26,350
General advisory services <sup>2</sup>	603,779	288,000
<b>Overseas KPMG firms:</b>		
Taxation compliance services	7,766	10,345
Other assurance services	2,635	2,387
	<b>619,180</b>	<b>327,082</b>

- 1 Other assurance services in F15 comprises agreed upon procedures performed on bank covenant certification provided to the Consolidated Entity's banking syndicate
- 2 Includes financial advisory and vendor due diligence services provided in connection with divestment of businesses. The provision of non-audit services was approved by the Company's Audit Business Risk & Compliance Committee, in accordance with the Company's policy on non-audit services and rotation of auditors, on the basis that KPMG's knowledge of the Company's business would facilitate a quicker, more focussed and more cost effective outcome for the Company.

It is the Company's policy not to engage the Company's auditor to provide non-audit services, unless the provision of those services will not prejudice the auditor's independence. Approval to provide these services must be obtained in accordance with the Audit, Business Risk and Compliance Committee's policy on non-audit services.

### NOTE 28 – COMPANY DISCLOSURES

As at, and throughout the financial year ended, 30 June 2015, the parent company of the Consolidated Entity was Pacific Brands Limited.

	COMPANY	
	2015 \$'000	2014 \$'000
<b>Result of the Company</b>		
Profit/(loss)	(132,990)	(199,797)
Total comprehensive income/(loss)	(132,990)	(199,797)
<b>Financial position of the Company at year end</b>		
Current assets	36,192	36,666
Total assets	331,623	464,083
Current liabilities	144	27
Total liabilities	144	27
<b>Total equity of the Company comprising of:</b>		
Share capital	323,128	455,128
Other reserves	5,479	5,066
Retained earnings	2,872	3,862
Total equity	<b>331,479</b>	<b>464,056</b>

It is the Consolidated Entity's policy that all transactions with related parties are on normal terms and conditions.

	COMPANY	
	2015 \$'000	2014 \$'000
<b>The aggregate amounts invested in/receivable from controlled entities are:</b>		
Amounts receivable other than trade debtors		
Current		
Wholly-owned controlled entity	36,155	36,629
Non-current		
Wholly-owned controlled entity	295,416	427,416

On 21 August 2013, the Company recognised \$23.2 million of dividend revenue it received from Pacific Brands (Australia) Pty Ltd ('PBA'). On the same day, the Company decided to appropriate \$22.8 million into a separate profits reserve for the purpose of future dividend payments to shareholders, and on 22 August 2013 subsequently declared a dividend of \$22.8 million to its shareholders (refer Note 22).

On 17 February 2014 and on 30 June 2015, the Company reduced its share capital by \$242.2 million and \$132.0 million respectively for the amounts that were lost or not represented by available assets, reflecting impairment charges incurred by the Company during the year ended 30 June 2014 and 30 June 2015 respectively. This had the effect of eliminating accumulated losses of the Company. There was no impact on the number of issued shares or on the Statement of Comprehensive Income or Statement of Cash Flows.

## NOTE 29 – EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the reporting period and the date of this report, any item, transaction, or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operation of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial reporting periods.

## NOTE 30 – CONTROLLED ENTITIES AND EQUITY ACCOUNTED INVESTMENTS

The Consolidated Entity has a 100% ownership interest in the following entities in the current and prior years, except where noted:

CONTROLLED ENTITY	PLACE OF INCORPORATION	CONTROLLED ENTITY	PLACE OF INCORPORATION
<b>Continuing controlled entities</b>		<b>Divested controlled entities<sup>1</sup></b>	
Pacific Brands (Australia) Pty Ltd	Australia	Pacific Brands Footwear Pty Ltd	Australia
Pacific Brands Holdings Pty Ltd	Australia	Shoe Warehouse Pty Ltd	Australia
Pacific Brands Sport & Leisure Pty Ltd	Australia	Pacific Brands Workwear Group Pty Ltd	Australia
Pacific Brands Clothing Pty Ltd	Australia	Yakka Pty Ltd	Australia
Bonds Industries Pty Ltd	Australia	CTE Pty Ltd	Australia
Sheridan Australia Pty Ltd	Australia	Neat n Trim Uniforms Pty Ltd	Australia
Pacific Brands Services Group Pty Ltd	Australia	Dowd Corporation Pty Ltd	Australia
Shared Apparel Services Pty Ltd	Australia	PacBrands USA Inc	USA
Sthgirw Workwear Pty Ltd	Australia	IncorporateWear Ltd	UK
Yakka (Wodonga) Pty Ltd	Australia		
Icon Clothing Pty Ltd	Australia		
Pacific Brands (Asia) Ltd	Hong Kong		
Pacific Brands Holdings (Hong Kong) Ltd	Hong Kong		
PT Pacific Brands Indonesia	Indonesia		
Sheridan NZ Limited	New Zealand		
Pacific Brands Holdings (NZ) Ltd	New Zealand		
Pacific Brands (Singapore) Pte Ltd	Singapore		
Pacific Brands (Shanghai) Business Service Company Ltd	China		
Pacific Brands (Shanghai) Trading Company Ltd <sup>2</sup>	China		
PacBrands (UK) Ltd	UK		
Sheridan UK Limited	UK		
IncorporateWear Trustees Ltd	UK		

<sup>1</sup> These entities were divested on 1 December 2014 (refer Note 7)

<sup>2</sup> Registered in August 2014

The Consolidated Entity has an interest in the ordinary shares of the following entities that are not 100% owned:

ENTITY	PLACE OF INCORPORATION	ENTITY INTEREST 2015	ENTITY INTEREST 2014
Pacific Brands UAE Trading LLC	United Arab Emirates	-	49%
Iconix Australia LLC	United States	-	50%
Berlei IP Limited	Hong Kong	<b>50%</b>	-

On 1 December 2014, the Consolidated Entity divested its 49% interest in Pacific Brands UAE and its 50% interest in Iconix Australia LLC (refer Note 7).

On 1 April 2015, the Consolidated Entity acquired a 50% interest in the share capital of Berlei IP Limited, a Hong Kong incorporated entity, for a total investment cost of AUD \$9.6 million. Berlei IP Limited is a joint venture entity established to advance the 'Berlei' brand worldwide in relation to intimate apparel, sportswear and other garments. The investment is classified as a joint venture and is equity accounted.



## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### NOTE 31 – KEY MANAGEMENT PERSONNEL DISCLOSURES

#### Key management personnel compensation

The key management personnel ('KMP') compensation included in the Consolidated Entity's personnel expenses (refer Note 5) is as follows:

	CONSOLIDATED	
	2015 \$	2014 \$
Short term employee benefits		
Fixed salary	3,340,899	4,791,212
Retention payments <sup>1</sup>	2,916,570	-
Incentive payments	99,000	-
Non-monetary benefits	188,559	253,661
Post-employment benefits	232,274	254,643
Termination benefits	154,081	1,400,000
Share based payments	289,229	234,981
	<b>7,220,612</b>	<b>6,934,497</b>

<sup>1</sup> Short term employee benefits in F15 includes retention payments in connection with the strategic review of the Company, further details are contained within the Remuneration Report

The KMP of the Company and the Consolidated Entity are defined under AASB 124 *Related Party Disclosures* to include the non-executive directors, the executive directors and those other persons with authority and responsibility for planning, directing and controlling the activities of the Company during the financial year.

#### Individual director and senior executive compensation disclosures

Information regarding individual director and senior executive compensation, performance rights and share holdings is provided in the Remuneration Report on pages 35 to 52.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Consolidated Entity since the end of the previous year and there were no material contracts involving directors' interests existing at year end.

#### Directors of related parties

A number of the directors of the Company are also directors of other companies. On occasions, the Consolidated Entity may purchase goods and services or lease properties from or supply goods and services to these companies. These transactions are undertaken on normal commercial terms and conditions and the directors and other KMP do not directly influence these transactions.

### NOTE 32 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied by each entity in the Consolidated Entity, for all periods presented.

#### A. Changes in accounting policies and new standards

The Consolidated Entity has adopted all new standards and amendments to standards required for adoption effective 1 July 2014.

##### New accounting standards not yet effective

The following new accounting standards have been published but are not mandatory for 30 June 2015 and have been identified as potentially relevant to the entity in future reporting periods. The Consolidated Entity's assessment of these new accounting standards is set out below:

- AASB 9 *Financial Instruments* - AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. AASB 9 also introduces a new hedge accounting model, which simplifies hedge accounting requirements and aligns with risk management activities. The new standard will be applied for the annual reporting period ending 30 June 2019. This standard is not expected to impact the Consolidated Entity's accounting for financial assets and financial liabilities
- AASB 15 *Revenue from contracts with customers* – AASB 15 addresses how and when the Consolidated Entity will recognise revenue as well as enhanced disclosure requirements. The new standard will be applied for the annual reporting period ending 30 June 2019. The Consolidated Entity is yet to assess the impact of this standard on its financial statements

There are no other standards that are issued but not yet effective that are expected to have a material impact on the Consolidated Entity in the current or future reporting periods and on foreseeable future transactions.

#### B. Principles of consolidation

##### Subsidiaries

Subsidiaries are all entities over which the Company has control. Control exists when the Company is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of controlled entities are included in these Financial Statements from the date that control commences until the date that control ceases.

Intra-group balances, and any unrealised gains and losses or revenues and expenses arising from intra-group transactions (including transactions with joint ventures), are eliminated in preparing the Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The interest in the joint arrangement held by the Consolidated Entity is classified as a joint venture and accounted for using the equity method.

#### Equity method

Under the equity method of accounting, investments are initially recognised at cost and adjusted thereafter to recognise the Consolidated Entity's share of the post-acquisition profits or losses of the investee in profit or loss, and the Consolidated Entity's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment. When the Consolidated Entity's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, the Consolidated Entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

### C. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Consolidated Entity.

The Consolidated Entity measures goodwill at the acquisition date as the sum of the fair value of the consideration transferred, the recognised amount of any non-controlling interest in the acquiree and the fair value of any existing equity interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Consolidated Entity incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

### D. Revenue recognition

#### Sale of goods

Revenue from the sale of goods (net of returns, discounts, rebates and allowances) is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

Revenue from the sale of gift cards is recognised when the gift card is redeemed. The Consolidated Entity has an unfulfilled performance obligation at the time it sells the gift card to the customer and therefore defers the revenue at the initial point of sale of the gift card.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

### E. Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and gains and losses on hedging instruments that are recognised in profit or loss (refer Note 32(V)). Borrowing costs are expensed as incurred and included in net financing costs, except to the extent they are capitalised in relation to the acquisition, construction or production of a qualifying asset. Interest income is recognised in profit or loss as it accrues, using the effective interest rate method.

### F. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the relevant taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense of an item. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### G. Income tax

Income tax on the profit or loss comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities from a transaction that is not a business combination that affects neither accounting nor taxable profit, and differences relating to investments in controlled entities to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### H. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company for the reporting period, by the weighted average number of ordinary shares of the Company. Diluted earnings per share is determined by adjusting the profit or loss attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares which comprise performance rights granted to employees.

### I. Receivables

Trade and other receivables are stated at their amortised cost less impairment losses (refer Note 32(N)).

### J. Inventories

Inventories are measured at the lower of cost and net realisable value. Cost includes direct materials, direct labour, other direct variable costs and allocated production and supply overheads necessary to bring inventories to their present location and condition, and where relevant based on normal operating capacity of the production facilities. The cost of inventories also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

The costs of manufacturing inventories and work in progress are assigned on a first-in, first-out basis. Costs arising from exceptional wastage are expensed as incurred.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expense. Allowances are established for obsolete or slow moving inventories taking into consideration the ageing or seasonal profile of inventories, the nature of inventories, discontinued lines, sell through history, margins achieved and forecast sales.

### K. Leases

Leases under which the Consolidated Entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are expensed on a straight line basis over the term of the lease.

### L. Property, plant and equipment

#### Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (refer Note 32(N)). Cost includes expenditure that is directly attributable to the acquisition of the asset.

#### Depreciation

Items of property, plant and equipment are depreciated over their estimated useful lives as set out below. Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each item of property, plant and equipment.

The estimated useful life of leasehold improvements is life of lease, and 3 -10 years for owned and leased plant and equipment in the current and comparative periods.

### M. Intangible assets

#### Goodwill

Goodwill arises on the acquisition of businesses. Goodwill represents the excess of the cost of the acquisition over the Consolidated Entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is measured at cost less accumulated impairment losses (refer Note 32(N)).

## Brand names

Brand names are considered indefinite life assets, as they are not currently associated with products that are likely to become commercially or technically obsolete. Brand names are measured at cost less accumulated impairment losses (refer Note 32(N)).

## Software

Software is stated at cost less accumulated amortisation and impairment losses (refer Note 32(N)). Amortisation is charged to administrative expenses in profit or loss on a straight line basis over the estimated useful life of the software. The estimated useful life of software is 5 - 10 years in the current and comparative periods.

## N. Impairment

### Financial assets (including receivables)

The Consolidated Entity considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics. In assessing collective impairment, the Consolidated Entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

### Non-financial assets (including property, plant and equipment and intangible assets)

The carrying amounts of the Consolidated Entity's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets CGU. The recoverable amount of an asset or CGU is the greater of its value in use, and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. The pre-tax discount rate is based on the Company's weighted average cost of capital which is determined with regard to various market indices. The fair value less costs of disposal is based on a capitalisation of maintainable earnings before interest and tax approach. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in other expenses in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## O. Payables

Trade and other payables are stated at their amortised cost.

## P. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in profit or loss over the period of the loans or borrowings on an effective interest rate basis.

## Q. Employee benefits

### Short term obligations

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months after balance date are measured at the amounts expected to be paid when the liability is settled, and include related on-costs, such as workers' compensation insurance and payroll tax.

### Other long term obligations

Liabilities for long service leave and any annual leave not expected to be settled within 12 months after balance date are measured as the present value of expected future payments to be made in respect of services provided by employees up to balance date.

Liabilities are calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on employee turnover history and are discounted using the rates attaching to government bonds at balance date which most closely match the terms to maturity of the related liabilities.

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### Defined benefit superannuation plans

A defined benefit superannuation plan is a post-employment benefit plan other than a defined contribution plan. The Consolidated Entity's net obligation in respect of defined benefit superannuation plans is calculated by estimating the present value of future benefits that employees have earned in return for their service in the current and prior years, less the fair value of any plan assets. The discount rate is the yield at balance date on corporate bonds (2014: government bonds) that have maturity dates approximating the terms of the Consolidated Entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income.

When the benefits of the plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss.

Where the calculation results in a net benefit to the Consolidated Entity, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

### R. Share based payments

The Company has introduced a number of share plans pursuant to which executive directors and other senior executives may acquire shares or be granted performance rights. The fair value of performance rights granted is recognised in profit or loss with a corresponding increase in equity. The fair value is measured at grant date and expensed over the period during which the employees become unconditionally entitled to the performance rights. The fair value of the performance rights granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the performance rights were granted. Under all current grants of performance rights, 50% is subject to a relative total shareholder return hurdle and 50% is subject to an absolute earnings per share measure of performance. Total shareholder return is a market based vesting condition included in the fair value of each performance right granted and expensed over the vesting period. Market based conditions are not adjusted to reflect differences between expected and actual outcomes. The earnings per share hurdle is a non-market based vesting condition expensed over the vesting period. As a result, the expense is adjusted to reflect the number of shares forfeited or expected to be forfeited due to the relevant thresholds not being met or not expected to be achieved. The expense related to share based payments is accounted for in the entity which employs the relevant individual.

### S. Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### Restructuring

Provisions for restructuring are only recognised when a detailed plan has been approved and the Consolidated Entity has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Costs related to ongoing activities are not provided for.

Provisions for termination benefits are recognised at the earlier of (a) when the Consolidated Entity can no longer withdraw the offer of those benefits; and (b) when the Consolidated Entity recognises costs for a restructuring that involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

#### Leased premises

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from their occupancy and sub-lease rentals are less. The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

At the inception of a lease, a best estimate is made of the cost to return the leased premise to its original condition. This amount is included in the cost of the leasehold improvement asset and a corresponding provision is recognised.

#### Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

### T. Segment reporting

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results are regularly reviewed by the Consolidated Entity's CEO to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities. Inter-segment pricing is determined on an arm's length basis.

## U. Foreign currency

### Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to AUD at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AUD at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange gains and losses arising on translation are recognised in profit or loss on a net basis.

### Translation of controlled foreign operations

The assets and liabilities of controlled foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to AUD at foreign exchange rates ruling at the balance date. The revenues and expenses of foreign operations are translated to AUD at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

### Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are taken to the foreign currency translation reserve. They are released into profit or loss upon disposal of investments in foreign operations.

## V. Derivative financial instruments

The Consolidated Entity uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from operating, investing and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Any subsequent remeasurements to fair value are recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of derivative financial instruments is the estimated amount that the Consolidated Entity would receive or pay to transfer the instrument at balance date, taking into account current market rates and the current creditworthiness of counterparties.

### Hedging

On entering into a hedging relationship, the Consolidated Entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

### Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset (including inventories) or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (ie when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding policy statement, the associated cumulative gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

### Hedges of monetary assets and liabilities

When derivative financial instruments are used to hedge economically the foreign exchange exposure of recognised monetary assets or liabilities, hedge accounting is not applied and any gains or losses on the hedging instruments are recognised in profit or loss.

## W. Share capital

### Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognised as a provision in the period in which they are declared.

## FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

### Treasury shares

The Company operates the Pacific Brands Share Trust ('Trust'). The main purpose of the Trust is to hold unvested performance shares as part of the Pacific Brands Performance Rights Plan. Under AASBs, the Trust qualifies as an equity compensation plan special purpose entity and its results are included in those for the Consolidated Entity.

Any shares held by the Trust are accounted for as treasury shares and treated as a reduction in the number of publicly held shares of the Company and the Consolidated Entity. Payments made for treasury shares are treated as a reduction in equity and recognised in the equity compensation reserve.

### NOTE 33 – ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these Financial Statements requires the making of estimates and judgements that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors including reasonable expectations of future events. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and judgements that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are noted below.

#### Recoverability of goodwill, other intangible assets and property, plant and equipment (refer Notes 12 and 11)

Management reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU. The recoverable amount of those assets, or CGUs, is measured as the higher of their fair value less costs of disposal, and value in use using a combination of internal and external sources of information and analysis. The information used and assumptions made in the calculation are reflective of past experience and expected future performance. Actual results may, however, differ materially from these estimates. The determination of fair value less costs of disposal is based on a capitalisation of maintainable earnings before interest and tax approach. The determination of value in use requires the estimation and discounting of future cash flows. The estimation of the cash flows considers information available at balance date which may result in cash flows deviating from estimated cash flows. Estimated future maintainable earnings and cash flows are sensitive to key assumptions and may vary materially due to differences in, amongst other things, actual market growth, distribution, pricing, trading terms, volumes, product costs, foreign exchange currency movements, freight, distribution and other costs of doing business. Subsequent changes to the CGU allocation or to the timing and quantum of earnings or cash flows may also impact the carrying value of the respective assets.

#### Net realisable value of inventories (refer Note 9)

Management uses its judgement in establishing the net realisable value of inventories. Allowances are established for obsolete or slow moving inventories, taking into consideration the ageing or seasonal profile of inventories, the nature of inventories, discontinued lines, sell through history, margins achieved and forecast sales.

#### Provisions (refer Note 13)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Restructuring and redundancy provisions are estimated based on activities and employees that are likely to be affected. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Litigation and administrative proceedings are evaluated on a case by case basis considering the available information, including that from legal counsel, to assess potential outcomes. Where it is considered probable that a future obligation will result in an outflow of resources, a provision is recorded in the amount of the present value of the expected cash outflows if these are deemed to be reliably measurable.

Make good provisions for leased premises are estimated at the inception of the lease. A best estimate is made of the cost to return the leased premise to its original condition, taking into consideration the nature and size of the premise.

Where the likelihood of an outflow of resources is determined to be not probable, disclosure is made for the contingent liability. If the likelihood of an outflow of resources is remote, then no disclosure is made.

#### Valuation of derivative financial instruments (refer Note 24)

The Consolidated Entity measures derivative financial instruments at fair value on initial recognition and subsequently at each balance date. The fair value of forward exchange contracts is derived from quoted market prices and in the case of interest rate swaps, the fair values are based on estimated amounts that the Consolidated Entity would receive or pay to transfer the swap at balance date.

### Parent entity financial information

The financial information for the parent entity disclosed in Note 28 has been prepared on the same basis as the consolidated Financial Statements.

## DIRECTORS' DECLARATION

1. In the opinion of the directors of Pacific Brands Limited ('Company'):
  - (a) the consolidated Financial Statements and notes and the Remuneration Report in the Directors' Report, set out on pages 35 to 84, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001 and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts and when they become due and payable
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2015.
3. The directors draw attention to Note 1 (A) to the consolidated Financial Statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Melbourne this 25<sup>th</sup> day of August 2015.

Signed in accordance with a resolution of the directors:



**Peter Bush**  
Chairman



**David Bortolussi**  
Chief Executive Officer





## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PACIFIC BRANDS LIMITED

### Report on the financial report

We have audited the accompanying financial report of Pacific Brands Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2015, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1A, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

### Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1A.

### Report on the remuneration report

We have audited the Remuneration Report included in pages 38 to 52 of the directors' report for the year ended 30 June 2015. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### Auditor's opinion

In our opinion, the Remuneration Report of Pacific Brands Limited for the year ended 30 June 2015, complies with Section 300A of the Corporations Act 2001.

Melbourne  
25 August 2015

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Liability limited by a scheme approved under Professional Standards Legislation.

Alison Kitchen  
Partner

## SHAREHOLDERS' STATISTICS

As at 31 July 2015

### DISTRIBUTION OF ORDINARY SHAREHOLDERS AND SHAREHOLDINGS

SIZE OF HOLDING	NUMBER OF HOLDERS		NUMBER OF SHARES	
1 to 1,000	6,418	29.50%	3,258,383	0.36%
1,001 to 5,000	9,958	45.78%	23,894,811	2.61%
5,001 to 10,000	2,477	11.39%	18,790,278	2.05%
10,001 to 100,000	2,692	12.37%	75,574,282	8.24%
100,001 and over	209	0.96%	795,708,537	86.75%
Total	21,754	100.0%	917,226,291	100.0%

Included in the above total are 7,072 shareholders holding less than a marketable parcel of 1,191 shares.

### TWENTY LARGEST ORDINARY FULLY PAID SHAREHOLDERS

	SHARES	% OF TOTAL
J P MORGAN NOMINEES AUSTRALIA LIMITED	208,485,814	27.71
CITICORP NOMINEES PTY LIMITED	159,045,451	21.14
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	155,581,298	20.68
NATIONAL NOMINEES LIMITED	138,826,212	18.45
BNP PARIBAS NOMS PTY LTD <DRP>	29,103,711	3.87
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	17,244,210	2.29
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	6,823,969	0.91
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	5,139,162	0.68
RBC INVESTOR SERVICES AUSTRALIA NOMINEES P/L <WAM ACCOUNT>	4,898,976	0.65
MR JOSEPH MIRO VUCETIC + MRS CLARA GALA <THE JC SUPERNOVA S/F A/C>	4,500,000	0.60
AMP LIFE LIMITED	3,862,441	0.51
MESTJO PTY LTD	3,422,846	0.45
MR JOSEPH MIRO VUCETIC <THE VUCETIC FAMILY A/C>	2,800,000	0.37
DOCTORS OWN PTY LTD <THE AMBOISE INVESTMENT A/C>	2,420,670	0.32
UBS NOMINEES PTY LTD	2,310,600	0.31
MR DON LAZZARO + MRS ANN LAZZARO <SUPER FUND A/C>	2,000,000	0.27
BUTTONWOOD NOMINEES PTY LTD	1,996,517	0.27
DE BRUIN SECURITIES PTY LTD	1,700,000	0.23
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	1,376,899	0.18
MISS AMANDA BERNADETTE DE ANGELIS	895,070	0.12

### SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders in the Company, and the percentage of fully paid ordinary shares in which each has an interest on the respective dates, as disclosed in substantial shareholder notices to the Company are as follows:

08-05-15	Allan Gray Australia Pty Ltd	19.56%
12-02-15	Lazard Asset Management Pacific Co	13.96%
16-04-10	Dimensional Fund Advisors LP	7.16%
22-06-15	Legg Mason Asset Management Limited	6.06%

## SHAREHOLDERS' INFORMATION

### ANNUAL GENERAL MEETING

Tuesday 27 October 2015 10.00am  
Computershare Conference Centre  
Yarra Falls  
452 Johnston Street  
Abbotsford, Victoria 3067  
Australia

### STOCK EXCHANGE LISTING

Pacific Brands shares are listed on the Australian Securities Exchange ('ASX') and New Zealand Stock Exchange ('NZX') and are traded under the code 'PBG'.

### PACIFIC BRANDS SHARE REGISTRY

#### Australia

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford Victoria 3067  
Australia  
GPO Box 2975, Melbourne Victoria 3001  
Australia

#### New Zealand

Computershare Investor Services Limited  
Level 2, 159 Hurstmere Road  
Takapuna, Auckland  
New Zealand

#### Telephone

Australia: 1300 132 632  
New Zealand: +64 9 488 8777  
International: +61 3 9415 4184  
Facsimile: +61 3 9473 2500  
Email: [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

### TAX AND DIVIDEND PAYMENTS

For Australian registered shareholders who have not quoted their Tax File Number ('TFN'), exemption or Australian Business Number ('ABN'), the Company is obliged to deduct tax at the top marginal tax rate plus Medicare levy from unfranked and/or partially franked dividends. If you have not already provided your TFN/ABN, you may do so by contacting the Share Registry or by registering your TFN/ABN at the Share Registry's website at [www.computershare.com.au](http://www.computershare.com.au).

### DIVIDEND PAYMENTS

Any dividends will be paid in Australian dollars credited directly into your nominated bank account. If you have not nominated a bank account, a dividend cheque (less an administration fee of \$1.00) will be mailed to the address recorded on the share register. If you wish to elect to receive your dividends by way of direct credit but have not done so, you should complete an application form available by contacting the Share Registry or enter the details at the Share Registry's website at [www.computershare.com.au](http://www.computershare.com.au).

### CONSOLIDATION OF MULTIPLE HOLDINGS

If you have multiple issuer-sponsored holdings that you wish to consolidate into a single account, please notify the Share Registry in writing, quoting your full registered names and Security Reference Numbers ('SRNs') for these accounts and nominating the account to which the holdings are to be consolidated.

### CHANGE OF NAME AND/OR ADDRESS

For issuer-sponsored holdings, please notify the Share Registry in writing if you change your name and/or address. When advising the Share Registry of a change of name, please supply details of your new/previous name, your new/previous address, your SRN and supporting documentation evidencing your change of name. You can also change your address details online at the Share Registry's website at [www.computershare.com.au](http://www.computershare.com.au). Changes of address relating to shareholdings in a single name can be made over the phone by calling 1300 132 632 (Australia only). Please note that this does not apply to shareholdings held jointly or in a company name.

For CHES/broker-sponsored holdings, please notify your broker in writing if you change your name and/or address.

### SHARE ENQUIRIES

Shareholders seeking information about their shareholding or dividends should contact the Share Registry. Contact details are above.

### SHAREHOLDER DISCOUNT PROGRAM

Pacific Brands has a membership program ('My Pacific Brands') where shareholders have access to special offers, the latest products and deals at reduced prices both online and in our company owned retail stores. Shareholders have previously been provided with details of the program, but if you would like more information please contact the Company on +61 3 9947 4900.

### PACIFIC BRANDS' COMMUNICATIONS

Pacific Brands' website, [www.pacificbrands.com.au](http://www.pacificbrands.com.au) offers information about the Company, news releases, announcements to ASX and NZX and addresses by the Chairman and Chief Executive Officer. The website provides essential information about the Company and an insight into Pacific Brands' businesses.

Shareholders are encouraged to access and view the Company's Annual Report online at [www.pacificbrands.com.au](http://www.pacificbrands.com.au). Shareholders can select the method by which they receive shareholder information, including dividend advice, Notice of Annual General Meeting and Proxy by accessing the share registry Investor Centre at [www.investorcentre.com](http://www.investorcentre.com).

### REGISTERED OFFICE

ABN 64 106 773 059  
Pacific Brands Limited  
Level 1, 1096 Toorak Road  
Camberwell  
Victoria 3124  
Australia

Telephone: +61 3 9947 4900  
Facsimile: +61 3 9947 4951  
Email: [investorrelations@pacbrands.com.au](mailto:investorrelations@pacbrands.com.au)  
Website: [www.pacificbrands.com.au](http://www.pacificbrands.com.au)

### INVESTOR RELATIONS

Telephone: +61 3 9947 4900  
Email: [investorrelations@pacbrands.com.au](mailto:investorrelations@pacbrands.com.au)

### AUDITORS

KPMG  
147 Collins Street  
Melbourne Victoria 3000  
Australia

## COMPANY DIRECTORY

### CHAIRMAN

Peter Bush

### CHIEF EXECUTIVE OFFICER

David Bortolussi

### CHIEF FINANCIAL OFFICER

David Muscat

### NON-EXECUTIVE DIRECTORS

Stephen Goddard

Kiera Grant

James King

Helen Nash

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## ABBREVIATIONS/DEFINITIONS

- Cash conversion – OCFPIT / EBITDA before significant items
- CODB (Cost of doing business) – operating expenses (freight & distribution, sales & marketing, advertising and administration) below gross margin other than expenses that are individually significant as disclosed in Note 6 to the Financial Statements
- Comp sales growth – % growth in net sales revenue for stores (including online) that have been open for at least 13 months
- Continuing business – Underwear, Sheridan, Tontine & Dunlop Flooring and Other Unallocated segments
- Discontinued business – Workwear and Brand Collective segments
- EBIT – earnings before interest and tax
- EBITDA – earnings before interest, tax, depreciation and amortisation
- Gross Margin – gross profit plus other income and share of profit of equity accounted investments
- Inventory, Debtors and Creditors turns / days – Statement of Comprehensive Income components are based on LTM; Statement of Financial Position components are calculated on period end balances
- LTM – Last twelve months
- Net debt – Interest bearing loans and borrowings less cash and cash equivalents
- OCFPIT (Operating cash flow) – cash flow from operations pre interest and tax
- Payout ratio – Dividends declared / NPAT before significant items
- ROCE (Return on Capital Employed) – LTM EBIT before significant items / period end total capital employed
- Tangible ROCE – as for ROCE but using total capital employed less Intangibles
- TCE (Total Capital Employed) – Intangible assets (brand names & goodwill) plus net tangible assets