



Patties Foods Ltd
ACN 007 157 182

Corporate Governance Statement

August 2011

Corporate Governance Statement

The Patties Foods Limited board of directors (**Board**) is committed to achieving best practice in the area of corporate governance and business conduct. This statement outlines the main corporate governance principles and practices followed by Patties Foods Limited.

The Company's corporate governance practices were in place throughout the year ended 30 June 2011. The Board is comfortable that the practices are appropriate for a company of Patties Foods' size. Below are the main corporate governance practices in place (unless otherwise stated) throughout the reporting period in relation to the corporate governance principles and recommendations published by the ASX Corporate Governance Council.

Principle 1 – Lay solid foundations for management and oversight

The Company has adopted a Board Charter which is available on the Company's website.

The Board Charter divides functions and responsibilities between the Board and senior executives, including the Managing Director. While the Board is responsible for the overall direction of the Company, day-to-day management and administration is delegated to the Managing Director and the senior executive team. The Board will regularly review the allocation of particular functions to ensure that it remains appropriate for the needs of the Company.

The Board is responsible for monitoring the performance of the Managing Director and other senior management. In addition, the Company has put processes in place for reviewing the performance of senior management against the Company's performance objectives and business plans.

Performance evaluation of senior executives takes place regularly and is in accordance with the processes referred to above.

In relation to newly appointed executives, an induction program is made available by the Company to enable them to gain an understanding of:

- the Company's financial position, strategies, operations and risk management policies; and
- the respective rights, duties and responsibilities of the Board and senior executives.

Principle 2 - Structure of the Board to add value

The structure of the Board of Directors

The constitution and the Board charter govern the Board's composition. The Board Charter details the functions and responsibilities of the Board.

Board Composition

The Board seeks to ensure that the composition of the Board reflects the appropriate range of independence, skills, experience, expertise and diversity for the Company.

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The Remuneration and Nomination Committee is responsible for recommending candidates for appointment to the Board and the re-appointment of existing directors after reviewing the relevant person's skills, experience, expertise and background within the context of an appropriate matrix.

The minimum number of directors is three and the maximum number is ten. Directors will be elected at annual general meetings of the Company.

The Managing Director will not retire by rotation. Provided that the Company has three or more directors, one third of the directors (rounded down to the nearest whole number) will retire at each annual general meeting. In any case, no director may retain office for more than three years or beyond the third annual general meeting, following the director's last election or appointment, whichever is the longer period. In each case, if the retiring director is eligible, they may then seek re-election.

The Directors' Report outlines the relevant skills, experience, expertise and background of each director in office at the date of this report.

Directors' independence

Every member of the Board is required to apply independent judgement to decision making in their capacity as a director.

An independent non executive director is one who:

- is independent of management;
- is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment;
- meets the criteria for independence set out in Box 2.1 of the Principles of Good Corporate Governance and Best Practice Recommendations published by the ASX Corporate Governance Council (Best Practice Recommendations);
- has not served on the Board for a period which could materially interfere with the director's ability to act in the best interests of the Company; and
- does not have any interest or business relationship which could, or could reasonably be perceived to, materially interfere with the directors' ability to act in the best interests of the Company.

'Materiality' for these purposes is assessed on a case by case basis having regard to the Company's and the relevant director's circumstances, including the significance of the relationship to the director in the context of the director's activities as a whole.

Mr G.J. Bourke, Mr R.C. Rijs and Mr H.J. Rijs are not considered to be independent directors due to their current or former executive roles or significant shareholdings or association with significant shareholdings.

The other directors, namely Mr C.J. Riordan, Mr J.C. Leonard, Mr G. Dhnam and Mr. J.P.Schmoll are considered by the Board to be independent directors.

Independent professional advice

The Board and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice, at the Company's expense if the Chairman agrees.

Chairman and Managing Director (MD)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. The Chairman is an independent director.

The Managing Director is responsible for implementing Company strategies and policies.

It is the practice of the Board that, prior to commencement of each Board meeting, non-executive Board members meet without management being present.

Commitment

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2011, and the number of meetings attended by each director is disclosed in the Directors' Report.

The commitments of non-executive directors are considered prior to the director's appointment to the Board and are reviewed regularly as part of performance assessments.

Performance evaluation

The Board undertakes regular assessments of its collective performance, the performance of its Chair and each director and of its committees.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss the assessment.

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Remuneration and Nomination Committee and the Audit and Risk Committee. Each consists entirely of non-executive directors. Committee members are appointed for a one year term of office, after which their appointment may be subject to annual rotation at the discretion of the Board.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full Board as recommendations for Board decisions. Minutes are tabled at a subsequent Board meeting.

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Other committees may be established by the Board as and when required. Membership of the Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual directors.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of the following non-executive directors with the majority being independent:

- Chris Riordan (Chairman);
- J Curt Leonard; and
- Richard C Rijs

Details of these directors' attendance at Remuneration and Nomination Committee meetings are set out in the Directors' Report.

The Remuneration and Nomination Committee operates in accordance with a charter. The main responsibilities of the Committee in relation to nomination issues are to:

- Review the process for the nomination and selection of non-executive directors to the Board;
- Review succession plans and induction programs for the Company's non-executive directors and senior management;
- Review the induction programs for the Company's non-executive directors.

The Committee adopts the following process for the nomination and selection of non executive directors to the PFL Board.

- ensuring regular review of the performance and effectiveness of the Board and considering any gaps in the skills, experience and diversity on the Board;
- before recommending the re-appointment of an existing director or the appointment of a new director, reviewing that director's skill, experience and background within the context of the matrix of desired skills, experience and diversity;
- assisting in identifying, interviewing and recruiting candidates for the Board and utilising professional assistance where required.

The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the Company. The Committee's nomination of existing directors for re-appointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the Board and Company.

All new directors participate in a comprehensive induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

Audit and Risk Committee

The Audit and Risk Committee consists of the following non-executive directors with the majority being independent:

John P Schmoll (Chairman);
Chris J Riordan; and
Gregory J Dhnaram

Details of these directors' attendance at Audit and Risk Committee meetings are set out in the Directors' Report.

The main responsibilities of the Committee are outlined in Principle 4 - Safeguard integrity in financial reporting.

Principle 3 - Promote ethical and responsible decision making

Code of Conduct

The Company has a Code of Conduct and Ethics policy (**Code**) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity.

In summary, the Code requires that each director, manager and employee of the Company, at all times, act with the utmost honesty, integrity and responsibility in their dealings with clients, suppliers and competitors and other employees.

The Company has a strict approach to business courtesies and does not support facilitation payments and commissions. Bribes are absolutely prohibited.

The Board, management and all employees of the Company are committed to complying with the Code. It is the responsibility of each individual to comply with the Code and each person will be accountable for such compliance. Where an employee is concerned that there has been a violation of the Code, it can be reported in good faith to management. A record of such reports will be kept by the Company.

Diversity

The Company is an equal opportunity employer and welcomes people from a diverse range of backgrounds. Workplace diversity refers to the variety of differences between people in an organisation. It recognises that diversity encompasses gender, race, ethnicity, age, disability and cultural background among other matters. Patties Foods believes that embracing diversity in its workforce contributes to the achievement of its corporate objectives and enhances its reputation.

The Company is committed to achieving the goals of providing access to equal opportunities at work based on merit and fostering a corporate culture that embraces and values diversity.

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To support this goal, the Board has approved a diversity policy which will guide the Company in implementing diversity initiatives and measures for the year ahead. The policy is available on the Company website. During the 2011/2012 year, the Board will establish measurable objectives for achieving gender diversity and will review and assess, at least annually, both the measurable objectives for achieving gender diversity and progress in achieving them and will disclose relevant details in each annual report commencing in 2012.

The Remuneration and Nomination Committee is responsible for assisting the Board to effectively implement its Diversity Policy.

To assist the Board to fulfil its responsibilities, the Remuneration & Nomination Committee shall:

- regularly oversee a review of the relative proportion of men and women across the whole of Patties Foods' organisation, in senior management positions and the Board, respectively;
- report to the Board on the findings of such reviews and its recommendations for the objectives to be set by the Board for achieving gender diversity, having regard to any gaps identified by such reviews; and
- report to the Board, at least annually, on Patties Foods' progress in achieving the objectives set by the Board for achieving gender diversity;
- consider other initiatives to promote diversity in the workplace.

The Company acknowledges the changes to the ASX Corporate Governance Principles and Recommendations and has reviewed its policies and practices to ensure that they align with the spirit and intent of Principle 3.

Principle 4 – Safeguard integrity in financial reporting

It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficacy of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit and Risk Committee.

The Audit and Risk Committee has a formal charter approved by the Board. It consists of 3 non-executive directors with the most applicable expertise and skills for this Committee and shall comprise a majority of independent directors. The chairman of the Committee is not the chairman of the Board. The Managing Director and Chief Financial Officer are invited to meetings of the Committee at the discretion of the Committee.

The main responsibilities of the Committee are to:

- review and report to the Board on the annual report, the annual and half-year financial reports and all other financial information published by the Company or released to ASX;

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- assist the Board in reviewing the effectiveness of the Company's internal control environment covering effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations;
- oversee the effective operation of the risk management framework – see Principle 7 below;
- recommend to the Board the appointment, removal and remuneration of the external auditors and review the terms of their engagement, and the scope and quality of the audit; and
- review and assess the key operational and financial risks that can impact on the Company's business – see Principle 7 below.

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the financial records, risk management systems and internal compliance and controls of the Company have been properly maintained, the Company's financial reports for the financial period ended 30 June 2011 comply with the accounting standards and present a true and fair view of the Company's financial position and performance. This statement is required twice a year at each reporting period.

The external auditor is invited to meetings of the Committee at the discretion of the Committee. The external auditor met with the Committee 4 times during the period.

The Committee's charter may be found on the Company's website.

Principle 5 – Make timely and balanced disclosure

The Company, its directors and staff are very much aware of continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure.

Principle 6 – Respect the rights of shareholders

The Company provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price or value of the Company's securities, notifying them to ASX, posting them on the Company's website and issuing media releases.

The Company has a communications strategy to promote effective communication with shareholders. Subject to the ASX listing rules on disclosure, the Company communicates regularly with shareholders, brokers and analysts and maintains a review of information provided on its website.

Shareholders are encouraged to attend the Company's AGM and use this opportunity to ask questions. The external auditor attends the AGM and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

Principle 7 – Recognise and manage risk

The Company believes that there is a need for formal policies on risk oversight and management and accordingly risk matters are regularly addressed at Board meetings.

The risk management framework, assessments thereof and responses thereto are reviewed both individually and collectively by the Board and senior management with periodic review by the Audit and Risk Committee.

The Board has required senior management to design and implement a risk management and internal control system to manage the Company's material business and financial risks.

The Board has required management to report to it on the manner in which those risks are being managed effectively.

Senior management reported to the Audit and Risk Committee as to the effectiveness of the Company's management of material business and financial risks.

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the section 295A declaration is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks and policies adopted by the Board of Directors.

The Company's policies on risk oversight and management of material business risks may be found in the Audit and Risk Committee Charter. This document may be found on the Company's website.

Principle 8 - Remunerate fairly and responsibly

Remuneration and Nomination Committee

The Company has a Remuneration and Nomination Committee.

The Remuneration and Nomination Committee consists of the following directors with the majority being non-executive:

Chris Riordan (Chairman);
J Curt Leonard; and
Richard C Rijs

Details of these directors' attendance at Remuneration and Nomination Committee meetings are set out in the Directors' Report.

The Remuneration and Nomination Committee operates in accordance with a charter. The main responsibilities of the Committee in relation to remuneration issues are to:

- Provide advice in relation to remuneration packages of key management, non-executive directors and executive directors, equity-based incentive plans and other employee benefit programs;

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- Review the Company's recruitment, retention and termination policies as well as succession plans of key management and executives;
- Review remuneration by gender at all levels of the Company.
- Review the Company's superannuation arrangements;
- Consider those aspects of the Company remuneration policies and packages, including equity-based incentives, which should be subject to shareholder approval.
- Review staff resourcing trends and metrics; and
- Review other relevant matters identified from time to time, or requested by the Board.

The Committee has a minimum of three directors, all of whom are non executive directors.

At the discretion of the Committee, internal specialists or external advisors may be invited to Remuneration and Nomination Committee meetings, subject to the requirements of s206K, 206L and 206M in relation to the engagement of a remuneration consultant. The Committee meets at least two times a year, and additionally as required for it to undertake its role effectively.

Retirement allowances for directors

As detailed in the Remuneration Report, there are no retirement benefit schemes in place for directors other than statutory superannuation contributions.