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Announcements Officer
Company Announcements Office
Australian Stock Exchange Limited
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525 Collins Street
MELBOURNE VIC 3000

Proposed issue of Performance Rights under the Patties Foods Long Term Incentive Plan (Plan)

Patties Foods Limited (ASX: PFL) announces that it has decided to grant a total of 1,003,600 rights (Performance Rights) to acquire a like number of fully paid ordinary shares in the company to certain key management personnel of the company (detailed below), including 308,800 rights to the managing director, Greg Bourke, with effect from the grant date of 3 September 2012.

The grant of Performance Rights to the managing director is subject to shareholder approval under Listing Rule 10.14.

When making the announcement today, Chairman, Chris Riordan stated:

“No grant has been made to senior executives under the Plan since the initial allocation of options (via two Tranches) on 2 December 2009 apart from grants to two new executives in 2010. The final performance period for those grants ends on 30 June 2013. The EPS hurdles for Tranche 1 were not achieved at the end of FY12 and those options have lapsed. Tranche 2 will be tested at the end of FY13 with vesting unlikely to occur.

The quantum and structure of the grant of Performance Rights announced today reflect the fact that no Plan grant was made in FY12. The Board has adopted a transitional vesting approach for the current grant. A small proportion of the Performance Rights (Tranche 1 – 20%) will vest in two years (based on performance from 1 July 2011 to 30 June 2014) and the remainder (Tranche 2 – 80%) will vest in three years (based on performance from 1 July 2012 to 30 June 2015).

Taking into account the current position of the company, the Board concluded that the use of Performance Rights is the most effective on-going long term incentive for key executives. Further, the introduction of a relative Total Shareholder Return (TSR) performance hurdle alongside the continuing use of Earnings per Share (EPS) provides the appropriate balance between relative and absolute company performance”.



Patties



Summary of key aspects of the Plan

1 Consideration for the Rights

The Performance Rights will be granted for nil consideration.

2 Tranches

The relevant number of Performance Rights will be divided into 2 tranches as follows:

- First Tranche: 20% of the total grant will vest on the second anniversary of the grant date based on the Performance Period 1 July 2011 to 30 June 2014;
- Second Tranche: 80% of the total grant will vest on the third anniversary of the grant date based on the Performance Period 1 July 2012 to 30 June 2015.

3 Performance Hurdles

Vesting of the Performance Rights is dependent on two discrete performance measures:

- Earnings per Share (EPS) representing 50% of the total grant; and
- Relative Total Shareholder Return (TSR) representing 50% of the total grant.

4 Vesting Schedule

4.1 EPS Vesting Schedule

EPS (basic earnings per share on a normalised basis) performance of the Company will be measured on a compound annual growth in EPS of the Group over the relevant 3 year Performance Periods stated as a percentage (EPS Growth Percentage) . If the EPS Growth Percentage over the relevant Performance Period is:

- (a) less than 8% per annum, no Performance Rights subject to the EPS performance measure (**EPS Rights**) will vest;
- (b) 8% per annum, 50% of the EPS Rights will vest;
- (c) 12% per annum or more, 100% of the EPS Rights will vest; or
- (d) greater than 8% per annum but less than 12% per annum, the number of EPS Rights that vest will be determined proportionately on a straight line basis from 50% to 100%.

The Board may in its discretion adjust the required EPS Growth Percentage to take into account events including without limitation, acquisitions or disposals of businesses or capital assets by the Company during the Performance Period.

4.2 TSR Vesting Schedule

TSR of the Company will be measured against selected companies within the Consumer Staples GICS Sector – food Products sub-Industry Sector with a market capitalisation of 10% to 800% of Patties' market capitalisation at the grant date. The Board may in its discretion adjust the comparator group to take into account events including without limitation takeovers, mergers, delistings or demergers that occur during the Performance Period If relative TSR performance of the Company against the comparator group is:

- (a) below median performance, no Performance Rights subject to the TSR performance measure (**TSR Rights**) will vest;
- (b) at median performance, 50% of the TSR Rights subject to TSR will vest;

- (c) above median performance but below the 75th percentile, an additional 2% (or part thereof) of the TSR Rights will vest for each 1 percentile increase (or part thereof) above the 50th percentile; or
- (d) at or above the 75th percentile, 100% of the TSR Rights will vest.

5. **Vesting Acceleration Events**

Consistent with the terms of the Plan, there will be, subject to any necessary shareholder approval, certain vesting acceleration events on certain types of termination of employment (excluding resignation or dismissal for cause, in which event Performance Rights lapse) as well as on a Change of Control of the company. In determining any accelerated vesting, the Board will take into consideration the achievement of the Performance Hurdles (on a pro-rata basis).

6. **Participants and Performance Rights**

Participant	Number of Performance Rights
Greg Bourke – Managing Director (subject to shareholder approval)	308,800
Michael Knaap - Chief Financial Officer	154,400
Grant Leyden – General Manager Manufacturing	154,400
Tim Peters – Head of Sales	154,400
Jeff Pentney – General Manager People and Organisation	77,200
Mark Connolly – General Manager Marketing	77,200
Mark Kløver – General Manager Logistics	77,200
TOTAL	1,003,600

The total number and class of all quoted and unquoted securities in the Company are as follows:

Quoted securities
138,989,223 Ordinary Shares

Unquoted securities
1,950,000 Options

Yours faithfully

MICHAEL KNAAP
Company Secretary