31st August 2015

Freedom Foods Group Limited (ASX: FNP)

Full Year FY 2015 Financial Results

Freedom Foods Group Limited (FNP) has today released the Company's preliminary full year results for the 12 months ending 30th June 2015.

Operating Highlights

- A successful year investing in the Company's capability and capacities for profitable growth consistent with its 3 year plan
- Commissioning of a state of the art Nutritional Snacks line 3 months ahead of plan, with launch of 5 innovative nutritional snacks into the mainstream aisle from February 2015
- Sales growth in new value added Cereals and Bars in Australia, with growth in cereals in North America from increased distribution, albeit incurring significant start-up sales and marketing costs in both markets
- Sales growth in non-dairy beverage, led by growth in branded and non-branded sales in the fast growing Almond Milk category, with margin impacted by increased cost of almond inputs (exchange rate and market price)
- Launch in February 2015 of the Australia's Own brand in China, in partnership with Shenzhen JLL
- Highly successful launch of Pactum Dairy Group (PDG) achieving sales of close to $50 million in its first full year, tracking ahead of its 3 year business plan with demand from customers in China, SE Asia and Australia
- Launch of new and differentiated packaging for the Brunswick Specialty Seafood brand to consolidate its leadership position
- Significant investment in manufacturing capabilities, people, quality and systems
- Significant investment in new employees in R&D and product development to drive innovation in product and channel development
- Investment process impacted revenue and margins in the short term relating to commissioning process, deletion of our biscuit range and run-out of old lines
- As part of our development of a long term strategic dairy milk supply chain, the Company became a 10% equity participant in Australian Fresh Milk Holdings consortium (AFMH), with the acquisition of Moxey Farms, Australia's largest single-site dairy operation
- Announced acquisitions of the Darlington Point Mill and a proposed Oats based cereal and snack manufacturing business to accelerate the business plan and provide further value adding scale benefits to the expanding sales, manufacturing and supply chain footprint of the Cereal and Snacks business

Financial Summary

The Company reported a net profit of $56.6 million, a material increase from the prior corresponding period.

The net profit included an unrealised post-tax fair value gain of $51.96 million, arising from the gain on reclassification of the a2 Milk Company investment to a 'held for sale investment', reflecting a change in accounting treatment following the retirement of Mr Perry Gunner from the a2 Milk Company board. The resignation of Mr Gunner from the board of a2 Mik Company resulted in the Company no longer being able to clearly demonstrate that it could exercise significant influence over the operation of the a2 Milk Company business.

The Company achieved an underlying Operating EBDITA of $15.2 million, broadly in line with the previous corresponding period. The statutory reported EBDITA of $12.1 million reflected one off investment costs relating to snack bar commissioning and launch costs, which impacted gross margin and operating expense in Freedom Foods by $2.8 million. The Operating EBDITA and statutory result was also impacted by the expensing of $1.2 million of increased Almond input costs (reflecting adverse exchange rate and market price movements).

Each of the business units (with the exception of Seafood) achieved increased sales, notably including incremental growth in revenue in our joint venture Pactum Dairy Group of $49 million in its 1st full year of operation. The Freedom Foods branded product range increased revenue, although profitability was impacted by commissioning of the new nutritional snack equipment reducing manufacturing recoveries and gross margin during the half. Non dairy UHT operations performed ahead of the prior year. Although Specialty Seafood's revenue declined its contribution to Operating EBDITA increased.

The Company considers the Operating EBDITA result satisfactory having regard to:

- the significant investment and commissioning of the plant being undertaken and adjustments required to the operating structure of the business in this phase; and
- the impact of material market development expenditure, adverse exchange rate changes and almond input costs.

Set out below is a reconciliation of statutory EBDITA to underlying Operating EBDITA before significant items.

Year ended 30th June (A$'000)	**2015**	**2014**
Underlying Operating EBDITA before significant items	**16,420**	**15,289**
Significant Items expensed to profit:		
Exchange and Market Demand Impact on Purchases of Almond inputs	**-1,183**	**-**
Underlying Operating EBDITA	**15,237**	**15,289**
Other costs not representing underlying performance		
One off Marketing and Promotional Costs for Mainstream Bar Launch	**-1,351**	**-**
One off Marketing Costs for Cereal Launch	**-550**	**-**
Bar Line Commissioning Impact on Gross Margin	**-890**	**-**
Total Other Costs	**-2,791**	**-**
Operating EBDITA	**12,446**	**15,289**
Employee Share Option Expense (non cash)	**360**	**360**
Statutory EBDITA	**12,086**	**14,929**

Note: Operating EBDITA is a non-IFRS measure as contemplated in ASIC Regulatory Guide 230 Disclosing non-IFRS financial information (RG230). Operating EBDITA is used by management and the directors as the primary measures of assessing the financial performance of the Group and individual segments

Summary Financials

12 Months to 30 June	2015	2014	
	$'000	$'000	% Change
Gross Sales Revenues (1)	129,502	122,772	5.5%
Net Sales Revenues (1)	111,125	104,616	6.2%
Net Sales Revenue (Statutory)	91,460	87,856	4.1%
EBDITA (Underlying Operating pre significant)	16,420	15,289	7.4%
EBDITA (Statutory Operating) (2)	12,086	14,929	-19.0%
EBITA (Operating) (2)	9,092	12,201	-25.5%
Equity Associates Share of Profit (3)	-42	-26	-61.5%
Pre Tax Profit (Operating) (4)	9,240	13,059	-29.2%
Pre Tax Profit (Reported)	61,980	12,673	389.1%
Income Tax	5,349	541	888.7%
Net Profit (Operating) (4)	4,970	12,518	-60.3%
Net Profit (Reported)	56,631	12,132	366.8%
Interim Ordinary Dividend (cps)	1.50	1.50	0.0%
Interim CRPS Dividend (cps)	1.35	1.35	0.0%
EPS (cents per share) (Fully Diluted for CRPS)	36.29	8.21	342.0%
EPS Operating (cents per share) (Fully Diluted)	3.17	8.22	-61.4%
Net Debt / Equity	27%	4%	575.0%
Net Assets per Share	120	81	48.1%
Net Tangible Assets per Share	106.35	66.88	59.0%

Notes:

1. *Gross Sales Revenues do not include revenues from group associate entity, Pactum Dairy Group Pty Limited. Net Sales Revenues in the table above differs from the Appendix 4E, as the Net Sales Revenue above includes intercompany sales eliminated from the statutory reported Net Sales Revenue figure. This treatment reflects the Group's arm's length trading policy between Group activities.*
2. *Operating EBDITA and EBITA excludes pre-tax abnormal or non-operating charges and gains with an add back of non cash employee share option expense of $360k, elimination of the fair value gain of $53.1 million due to the reclassification of the a2MC investment and the share of losses from associate.*
3. *Share of losses from associate.*
4. *Operating Pre Tax Profit and Net Profit does not include the fair value gain of $53.1 million due to the reclassification of the a2MC investment and the share of losses from associate.*

1. UHT Beverage Business Group

1.1 Non Dairy Activities

Non-dairy production volumes increased during the period to support the growth of the Australia's Own and Blue Diamond brands, as well as an expansion of private label requirements for UHT Almond.

Non-dairy beverage sales continued the upward trend from the 2014 financial year with volume growth compared to the previous corresponding period, reflecting increased market share of Australia's Own Organic in the UHT Almond segment. Our Australia's Own brand and our licensed Blue Diamond Almond Breeze brands remain market leaders with a 43.7% (MAT August 15) share of the Almond UHT segment.

As at August 2015, the UHT Almond Milk category accounted for 33% of the retail non-dairy category, compared to 26% at August 2014. UHT Soy declined further with total share at 43.7%, compared to +50% in prior years. It is expected that UHT Almond and related blends will exceed UHT Soy market share within the next 18 months, reflecting a similar trend in North America.

Other UHT alternative categories including Almond Coconut and Coconut also increased share. The business had a minimal product exposure to these growing segments during the period. Innovation and new ranging, in new segments such as Cashew, will significantly improve our exposure to these categories in FY 2016.

Financial returns in the Almond portfolio were impacted during the period by increased Almond inputs (reflecting exchange rate and market pricing).

Australia's Own UHT liquid stocks increased sales and distribution during the period. The business is also a significant supplier of liquid stocks to retailer and other brands.

The business continued to see the benefit of increasing its mix of other value added UHT products, to a range of private label and proprietary customers.

Sales of UHT portion pack products were reduced from prior year reflecting the withdrawal of a major brand from the breakfast drink category. The business continued to grow its private label business and has reallocated surplus capacity to support growth in JLL Australia's Own Kids Milk requirements.

The business continues to develop plans for the launch of UHT Almond Milk into Asian markets using the Company's Australian production base. This leverages both the free trade agreements between Australia and Asia as well as the Company's relationship and distribution base within these markets. The Company sees further opportunity to develop non-dairy UHT products from an Australian manufacturing base into China and SE Asia.

During the period, the business invested significantly in its UHT R&D and product development capabilities to ensure it is a leading participant in developing innovative UHT solutions in non-dairy and dairy applications for its customers in Australia, China and SE Asia. The benefits of this investment will lead to increased sales and distribution in and beyond FY 2016.

New Facility at Ingleburn, South West Sydney

Existing UHT non dairy capabilities are constrained in both production and distribution at our Taren Point operation, restricting growth and financial returns.

With increasing demand from its private label and proprietary customer base for additional capacity and product format capability across non-dairy and value added dairy categories, the Company is investing for future growth through a planned expansion at a new site in Ingleburn in South West Sydney.

The planned new facility will provide for significant expansion in capacity and efficiency improvements compared to current operations, including providing a materially more efficient and lower cost warehousing and logistics solution compared to current arrangements.

The acquisition of aproximately 66,000 sq. metres of land in Ingleburn for a cost of approximately $16.6 million, which will provide the site for our new facility, was completed in June 2015.

The new facility will provide for existing and new UHT packaging capabilities including carton and plastic over different stages. This will allow customisation of beverage and food products and packaging for local and export markets with efficiency and speed, to meet the growing demand for high quality safe foods from Australia. It is intended that production will be marketed under the Company's brands and leading brands of key customers in Australia and Asia.

The facility will also be capable of processing dairy products, to allow a two-way redundancy with the Shepparton facility, while providing opportunity to expand the Company's base in dairy from multiple processing sites as required.

All requisite development approvals have been obtained for construction of the new facility. Construction of a warehousing and distribution facility has commenced in the 1st half FY 2016, with UHT production commencing during calendar year 2017. 1st stage installed capacity is expected to be approximately 80m litres, from current capacity at Taren Point of approximately 50m litres.

1.2 Dairy Activities

1.2.1 Pactum Dairy Group (PDG)

PDG commenced operations in April 2014 to provide innovative UHT dairy milk capability for customers in domestic and export markets.

PDG is a joint venture between Pactum and Australian Consolidated Milk (ACM), a major Australian dairy milk supply group.

Commencing volumes are tracking ahead of its 3 year business plan, with good demand from customers in Australia, China and SE Asia.

In its first full year of operation, the Company delivered sales of close to $50 million (+$44 million or +635%) and a close to break even EBDITA result. Slower demand in the 2nd half particularly for 1 litre formats reflected subdued market conditions in China and delays in import certifications. These short term market fluctuations delayed the expected move to profitability in the 2nd half of FY 2015.

Despite this, the business secured additional customers and volume from Australia, China and SE Asia, with supply commencing in FY 2016. These include Aldi, Mengniu (China), Lion and IDP (Vietnam). In Australia, PDG is now the largest dairy UHT supplier to Aldi under a long term supply arrangement. This complements the Company's position as the largest non dairy UHT supplier to Aldi and reflects strong customer recognition of our UHT capabilities.

The Company has established key relationships with major dairy manufacturers and brand owners in China including New Hope Dairy (Chengdu), Shenzhen JLL (Guangzhou) and Bright Dairy (Shanghai), online retailer Yihaodian and a number of regional dairy manufacturers and distributors. Each of these relationships is complementary, as both Freedom and our customers in China recognise the level of regionalisation and hence diversification in local market distribution, product range and capability within that market. The recent addition of major Chinese based dairy customers in China reflects increasing recognition of PDG as a supplier of choice in UHT dairy ex Australia, based on our unique customer partnership model.

The Company has also developed other customer relationships outside of China into SE Asia in markets such as Hong Kong, Philippines and Vietnam.

It is anticipated that our customer requirements are expected to grow beyond their initial volumes as demand for milk increases in their respective home markets, with Australian milk products providing the highest quality and safety at a comparative cost advantage compared to locally sourced milk. The $AUD exchange rate depreciation and expected free trade agreement with China provide further competitive advantage to the business in the medium to long term.

During the year, PDG installed additional portion pack capacity in 250ml Prisma and 200-330ml formats. Total installed capacity based on these additions is approximately 120 million litres or 290 million packs per annum.

To meet expected expansion in milk volumes and customer format requirements over the medium term, the Company is evaluating additional processing and filling capabilities, as well as an expansion of warehousing and logistics capabilities. Opportunities to vertically integrate into other value added dairy product streams are also being reviewed, such streams being aligned to our customer's long term requirements.

Consistent with this opportunity, the Company will acquire approximately 77,400 sq. metres of land adjacent to the PDG site at Shepparton in Victoria. The acquisition price subject to final adjustments is approximately $4 million, to be paid in September 2015. The acquisition of land provides the capacity and flexibility in developing longer term warehousing and distribution requirements for the Pactum Dairy operation. Additional customised manufacturing warehouse capacity will provide space for future expansion of processing and packaging operations at the site and potential expansion of other dairy processing capabilities in the future.

With the increasing scale of the PDG and Freedom Foods Group operations, the Company augmented the management capability within the PDG business with the appointment of senior commercial and operational resources with long established experience in both UHT dairy processing and UHT commercial sales.

With the commencement of operations and significant resourcing to meet the expected ramp up in volumes, the business recorded a net after tax loss in FY 2015. FNP equity accounted 1% of the loss in line with the current ownership structure. The Company has the capacity to obtain a 50% interest in PDG by converting convertible notes issued to it as part of its original investment. It is expected that this will occur in FY 2016, after which the Company's share of profits will increase to 50% in line with the increase in shareholding. It is expected that FY 2016 will show PDG making a positive operating result, hence contributing to Freedom's operating EBDITA, reflecting the business's increasing revenues and customer base.

1.2.2 Australia's Own Brand Partnership

The Company commenced production of our "Australia's Own" branded "Kids Milk" to support its launch in China in February 2015.

Australia's Own Kids Milk is being marketed and distributed in China through a long term 50 year partnership with Guangzhou based Shenzhen JiaLiLe Food Co. Ltd (JLL), which is owned and led by parties associated with the establishment of the largest selling ready to drink beverage in China. The arrangements reflect the strategic approach of our business model to engage established partners in foreign markets who understand local business requirements. The initial product is a single serve 200ml pack, which is the first Australian milk product marketed specifically to the post-infant-formula toddler market in China.

The product has been initially targeted in Tier 2 and Tier 3 cities, with considerable marketing investment by JLL, including point of sale promotion and sampling, external promotion and more recently TV commercials. Volume continues to build monthly.

Production commenced in late 2014 sourced from the Company's Taren Point UHT facility, due to the 200ml format capability in Sydney. Longer term supply decisions will be determined based on spare capability at either the Shepparton or Ingleburn facilities.

1.2.3 Australian Fresh Milk Holdings Consortium Investment

In July 2015, the Australian Fresh Milk Holdings consortium (AFMH), comprising Leppington Pastoral Company Pty Limited (LPC), New Hope Dairy Holdings Co Ltd and Freedom Foods Group Limited executed binding agreements to acquire Moxey Farms, Australia's largest single-site dairy operation. Collectively the combined Moxey and Leppington Pastoral dairy milk production makes it the largest dairy milking operation in Australia.

Moxey Farms operates a fully integrated dairy farming operation located in the Lachlan Valley, New South Wales, 340 km west of Sydney. Moxey Farms land portfolio covers an area of 2,700 hectares has and includes 3,700 milking cows that produce approximately 50 million litres of milk per year, with a large proportion of this milk from a2 cows.

The Moxey family will operate Moxey Farms in joint venture with the Perich family under a new Farm Management Agreement with AFMH, ensuring continuity of existing operations for key customers and staff.

The Moxey family have retained a strategic stake in AFMH, which will have assets and operations across every aspect of the dairy value chain. FNP has a 10% equity shareholding in AFMH, with the balance held by the other consortium members.

The acquisition will provide FNP with the opportunity to secure access to a consistent and long-term supply of high quality milk as AFMH explores expansion opportunities to further build on the acquisition of the Moxey operations. The consortium arrangement will also enable AFMH to leverage FNP's processing capabilities and New Hope Dairy's Asian footprint to readily access export markets such as China and South East Asia.

The Company intends to equity account 10% of the net profit of AFMH.

1.2.4 China Representative Office

The Group has had a representative in China since 2013. Consistent with the growth in our business in China, the Group has established a China representative office to provide for growth in its sales, marketing and supply chain requirements. While this team in China will initially be substantially engaged in supporting the dairy activities, the increased resource will provide a base for increased distribution of a broad range of the Company's products. In September 2015, the Company will launch its online trading platforms in China specifically for Freedom Foods branded product. It is anticipated that the office will also provide representation for alliance brands desiring to access China using the Company's Australian sourced production.

2. Cereal and Cereal Snacks

The Freedom Foods branded business continued to build momentum in its Cereal and Cereal based Snacks portfolio, with material investments in production capacity and capabilities for future growth.

Significant capital expenditure occurred at Leeton, together with further investment in R&D, product development and an increase in marketing to support new product launches.

The business delivered sales growth in its Cereal, Snacks and related Ingredients segments compared to the previous corresponding period. With a focus on its core product portfolio for future growth, the business is progressively reducing its presence in non-core categories including biscuits. The reduction in non-core products impacted sales in the period, with some resulting impact on margins and manufacturing recoveries.

Alongside investment in sales, marketing and specific product launch investment, the business is investing heavily in R&D and product development capability to drive growth in retail and other channels such as food service in the medium term.

The business experienced growth in new format combination products such as Active Balance, Oat and Muesli products. Traditional format products (i.e. Corn Flakes, Rice Puffs) experienced declines against the prior corresponding period. The business maintained category leadership in Health Cereals (retail) of circa 45% (MAT August 15).

Functional and combination format products, as well as portable and convenience options, will be key drivers of growth in Cereals and Snack business. These areas are also a key focus for our innovation investment, while ensuring our products achieve a 3.5 – 5.0 star rating within the Government health star rating system.

As part of ensuring best quality and growth in supply of key grains to our Freedom production facilities, the business developed its Freedom Farmer platform, with a number of key farmer groups engaged to build the Company's specialised grains supply platform over the coming years. This will guarantee our strategy of being an integrated paddock to plate provider. Australian sourcing of all ingredients will be a key source of competitive advantage for the Company.

2.1 Capacity Investment

During the year, the business invested approximately $11 million in capital expenditure at Leeton, including completing the upgrade of Cereal extrusion and packaging capabilities to improve efficiencies and provide increased capacity in range and format for both Cereals and Cereal Snacks.

The investments had a material impact on earnings during FY 2015, through commissioning impacts on Cereal, Snacks and other operational outputs. The impact of these is not expected to be recurring in FY 2016.

A significant part of the capital expenditure was incurred on the installation of a new state of the art automated nutritional snacks line, the most advanced capability installed currently in Australia. The line was installed in record time with new formats delivered within 2 months of installation commencement.

Both these investments will significantly increase Freedom Foods production capability, with no material increase in cash overheads and a lower cost per case. Expansion of extrusion capabilities will provide additional internal capacity for Cereal and Bars, as well as capacity for 3rd party ingredient sales.

2.2 Nut Free Snacks Launch into Mainstream

A key objective for the business from the installation of the new nutritional snack line was the introduction of a high star rated nut free nutritional snack bar range into mainstream supermarkets.

This was achieved, notwithstanding significant pressure on operational resources of the business, with a successful launch of 5 new products in Coles and Independents from January 2015. The range is the only "nut free" snack bar range on sale in Australia.

The launch delivered a material impact on sales growth in the second half (+68% volume, +97% gross sales), although the requirement to bring forward the commissioning timeline of the new line at Leeton had an impact on manufacturing recoveries and gross margin during the year. Additional significant marketing and promotional costs associated with the launch were incurred and expensed during the second half of FY 2015.

Since launch, the products have performed well, with certain SKUs delivering incremental growth above category average. Additional SKU's, increased facings and retail distribution are expected to be achieved during FY 2016.

2.3 North America

In North America, our 80% owned subsidiary invested in building sales and distribution capabilities, increasing sales and store distribution within the Specialty and Natural Product Retailer markets. Considerable investment has been made in developing relationships with retailers including Sprouts, Whole Foods, Wegmens, Kroger and HEB.

A total of 3,500 distribution points were established as at 30 June 2015. Freedom Foods is now ranked in the Top 10 Cereal brands in Specialty and Natural channels in the USA. Sales increased from A$696k in FY 2014 to $1.56 million in FY 2015, with the net loss increasing from A$684k to A$903k (including exchange rate impact) as the business continues to invest to build a sustainable market share within the retail and wholesale price point parameters available in the North American market. The North American business contributes to + 15% of Leeton Cereal production output.

The North America business will continue to build distribution and consumer awareness within existing and new retail stores, reflecting our unique proposition in Allergen Free and Non GMO Cereals and Cereal Snacks.

With current portfolio sales skewed to a small number of sweeter tasting products, product development efforts have been focussed on new products that are better aligned to the North American consumer taste requirement. New product launches in Cereal are planned for launch in 2016, along with the introduction of Allergen Free nutritional snack bars to provide increased sales and distribution growth.

With the North American business having established a strong consumer profile within the Allergen Free and Non GMO categories, the business will look to significantly expand distribution over the medium term through the application of additional localised sales and marketing resource.

The Company is also actively considering options for increased scale in the North American market. The business remains focused on delivering a profitable sales base within the medium term through sales of branded Cereals and Cereal snacks that account for a material proportion of groups cereal and snack production capability.

2.4 Darlington Point Mill

The Company has today completed the acquisition of the business and assets of the Darlington Point Mill based in the Riverina district of New South Wales, approximately 32kms from Freedom Foods allergen free cereal and cereal snacks facility at Stanbridge near Leeton.

The Mill operates an established grain processing facility for the supply of milled flours and popping corn. It is a significant processor of popping corn, with a +40% share in Australia, while also processing gluten free and non GMO grains. The business has existing customers in food service and processing markets in Australia as well as export markets.

Our plans are to expand the milling operations for internal use and external third party customers to grow sales and access cost efficiencies. We will also expand into processing of other key grains. Existing milling operations will be relocated from our Leeton facility to the Darlington Point Mill, providing for increased finished goods warehousing capabilities at our operations at Leeton.

The acquisition comprises assets located at the site including 7.5 hectares of land, several modern large and medium sized grain silos, flour processing plants, other machinery and equipment and buildings including an export container facility. We will also acquire raw materials including popping corn and maize. The acquisition price for the assets (excluding raw materials) is approximately $5.85 million. The business will contribute to earnings in FY 2016.

2.5 Oats based Cereal and Snacks Business Acquisition

The Company has entered into an exclusive term sheet to acquire a major Australian based manufacturer of Oat based Cereal and Snacks.

Oats is an expanding consumer preference in Australia and Asia.

The acquisition will enable Freedom to expand its brand and category segment offering in oat based products in Australia and into Asia, and for the first time allow Freedom to access manufacturing capability in both Allergen free (Leeton) and nut based capabilities (the new business) on a cost competitive basis. There will also be integration opportunities in milling and ingredients supplies into the new business from our in-house facilities.

The acquisition is expected to be accretive to earnings in its first full year of operation and is expected to provide operational efficiencies in the medium term. The acquisition is subject to confirmatory due diligence and other customary documentation and closing requirements.

2.5 Outlook

The focus for the business into 2016 and beyond is on increasing sales in Australia through building on its category leadership in the health channel and further growth in distribution channels, while establishing key products, channels and distribution for expansion of product into export markets in Asia and North America.

The acquisitions of the Darlington Point Mill and the proposed Oats based business will accelerate the business plan and provide further value adding scale benefits to the expanding sales, manufacturing and supply chain footprint of the Cereal and Snacks business.

The Company's significant investment in R&D and product development capabilities will deliver an exciting innovation pipeline of new products in Cereals, Nutritional Snacks and new formats for convenience and food service channels.

The significant capital expenditure in Cereal and Snacks capability is now largely complete. The impact on earnings in the most recent financial year is now behind the business. An expanded and more relevant product suite, a lower cost base and significant capacity, will enable the business to build sales through more efficient throughput and efficiencies. The opportunity to build our state of the art facilities into significant value adding assets through processing high value added niche products will assist in building a leading Cereal and Snacks business across all segments of the market.

3. Specialty Foods

Brunswick sardines maintained its No 1 brand leadership position in Australia and New Zealand.

The Paramount Salmon brand performed well during the period. Commencing Salmon inventory reduced exposure to AUD / USD exchange rate decline during the year. Tight management of sales promotions, while leading to lower gross sales during the year reduced promotional spend and improved gross margin. Operating performance improved reflecting Company's increased management resourcing and focus on the business.

The business remains focused on positioning for growth into FY 2016 through category leadership of the Specialty Seafood channel, including new product opportunities aligned to consumer demand for convenience and superior health benefits. As part of this approach, the business introduced revitalized packaging and website content for the Brunswick brand. The Company sees further category and product expansion opportunities within the Specialty Seafood category in response to the brand and packaging repositioning.

Exchange rate impacts in FY 2016 may be potentially offset by improved Salmon pricing from a strong 2015 Salmon catch. The business continued to utilise the procurement power of Bumble Bee Foods of North America, with Bumble Bee securing 2015 inventory requirements through priority access to salmon and sardine catch volumes.

The Company continues to review opportunities for other food format. Tetra Recart technology has some significant and compelling consumer and retailer benefits. The Company is trailing product development formats with potential customers as part of the feasibility study.

4. The a2 Milk Company Limited (a2MC), 17.8% Equity Interest

The Company is the largest single shareholder in the a2 Milk Company Limited (a2MC). a2MC owns and commercialises unique and comprehensive intellectual property rights relating to a2™ brand milk and related dairy products in a range of international markets including Australia.

a2™ branded milk is the fastest growing milk brand in the Australian market and the major driver of category growth nationally, accounting for approximately 9.3% of grocery channel market share by value.

a2MC also markets a2™ Platinum™ infant formula to consumers in Australia and China, with infant formula being ranged nationally in Coles, Woolworths, Independents and Pharmacy.

a2MC entered the North American fresh milk market with a launch of a2 branded fresh milk to selected retailers from April 2015.

During the period, the Company was required to reclassify how it accounts for the investment in a2MC. This resulted from the resignation of Mr P R Gunner from the a2MC Board in November 2014 and the determination by the Group that it no longer was able to clearly demonstrate that it exercised significant influence over a2MC. Significant influence was deemed to be lost at the conclusion of the a2MC AGM and therefore on this date the group has reclassified the investment to an Available for Sale investment (AFS) under the requirements of AASB 139 Financial Instruments: Recognition and Measurement.

At the date of reclassification, a fair value gain of $53.1 million ($51.96 million net of tax) was recorded in the statement of profit or loss. The investment in a2MC continues to be recorded at fair value, with any gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. An additional $5.84 million net of tax has been added to the carrying value of the a2MC investment as at 30 June 2015, reflecting the increase in market price of a2MC shares in the second half of FY 2015.

The Company did not recognise any equity accounted profit from a2MC during the period.

a2MC listed on the Australian Stock Exchange in April 2015.

On 21 June 2015, the Company, along with consortium partner Dean Foods, submitted an Expression of Interest (EOI) to a2MC which set out a preliminary, indicative non-binding proposal to explore an acquisition of a2MC. The Company is disappointed that the Board of a2MC did not engage with the consortium. The Company has had no communication with a2MC since then and the Company and Dean Foods have ceased detailed discussions in relation to a2MC.

As previously advised, the Company continues to review all its options with regard to its a2MC investment including evaluating the benefits of maintaining a strategic stake in a2MC.

5. Capital Management

The Company held cash of $2.3 million at 30th June 2015, with total borrowings of $52.9 million, comprising term facilities, equipment finance leases and working capital facilities. Net debt at 30th June 2015 was $50.6 million. Net debt excludes financial assets and loans to Associate entities.

At 30th June 2015, the Company had lent $14.3 million ($12.8 million at 30 June 2014) to Pactum Dairy Group to support further capital investment and working capital requirements. The loan attracts interest at a rate of 8.0% per annum.

Net cash flow from operations was $8.3 million, an increase of $1.1 million from FY 2014, reflecting increases in working capital requirements associated with inventory build for changing mix of business in beverages and new product launches.

During the period, the Company invested $49.6 million in capital expenditure and drew down financing facilities of $43.1 million. The capital expenditure comprised commitments to expansion at Freedom's Leeton facility, expansion of packaging capabilities at Shepparton, acquisition of land and payments for building works at Ingleburn and a deposit paid for land at Shepparton.

6. Dividends

Consistent with the positive outlook for group performance, the Company will pay a final fully franked dividend of 1.5 cents per ordinary share in November 2015. The record date for determining entitlements is 1st November 2015 and the payment date is 30th November 2015.

The Company's dividend reinvestment plan (DRP) remains open.

The Company will pay a fully franked converting preference share dividend in accordance with the terms of the converting preference shares. The record date for determining entitlements is 1st November 2015 and the payment date is 30th November 2015. There are 137,027 converting preference shares remaining on issue at 30th June 2015. 15,100 converting preference shares were converted to ordinary shares during FY 2015.

7. Capital Investment and Acquisition Programme

The Group is well advanced on a 3 pillar capital investment and acquisition programme which will transform its operations over the next 3 years and provide the opportunity to become a leading Australian based Food Company with a strong export platform.

The 3 pillars of the programme involve the following:

- Cereal and Snack Production (Allergen Free and oats/nuts). The Group has installed world class equipment to increase production capacity significantly for growth in sales and profitability at our allergen free site at Leeton over the next 3 years. Upgraded Cereal and new snack production lines have been commissioned and are ramping up to full efficiency. The design of the upgrade provides for modular expansion at relatively low capital cost thereafter. We are now looking to finalise the acquisition of an integrated oats and nuts production business which will allow Freedom to operate across the full spectrum cereals and cereal based snacks. These core businesses will be supported by our newly acquired milling capabilities

- Creation of Pactum Dairy Group and the development of a high speed low cost dairy focussed UHT facility at Shepparton. Operations commenced in April 2014 and the business is now moving into profitability on relatively low volumes compared to the rated capacity. Significant expansion of throughput has occurred during the year with the third and fourth lines becoming operational.

- The development of a low cost high speed UHT processing and distribution facility at Ingleburn for non-dairy and dairy products with the potential for other food related products over time.

As in any major expansion or reshaping of a business, not all matters proceed to plan. Commissioning issues, shutdown of existing production etc. can occur. This was reflected in our lower operating profit from our Cereals and Snacks operations for the year compared to the prior corresponding period. At the same time, the effort from our business to achieve the outcomes detailed in this release has been outstanding.

The Company is well placed to capitalise on the capital investment programme from the efforts of the team to bring these plans to fruition.

Funding for these major growth programmes will be provided from existing capital, prudent expansion of debt financing and the medium term realisation of other assets. Where equity capital is required, it will be sourced through entitlements offers to all shareholders.

8. Outlook

The Company through its UHT business and Cereals and Snacks platforms continues to build on its capability and capacities for growth, investing in our brands, our manufacturing facilities, R&D and product development as well as establishing key customer relationships in Asia and North America.

The expansion of UHT capabilities in Sydney will result in an increase in sales and profitability, with further growth opportunities through meeting the increasing demands of its private label and proprietary customer base, including under the Company's key brands "Australia's Own" and "Freedom Foods" and leading brands of key customers in Australia and internationally.

The UHT dairy platform in Pactum Dairy Group provides a material opportunity to increase exposure to the growing demand for high quality and safe dairy products from South East Asia, including China, aligned with our key strategic customers. With strong sales growth and delivery of profitability in FY 2016, the Company plans to convert its PDG convertible note into a 50% shareholding, allowing it to equity account PDG's sales and profit result, consistent with the business's increasing profitability and returns.

The Cereal and Cereal Snacks business is expected to deliver improved results from revenue growth through innovation in new products, expansion of distribution channels in Australia and international markets, together with increasing manufacturing efficiencies from volume and cost efficiencies arising from the capital investment program at the Leeton facility. This, aligned with investment in building awareness of the brand across a broader consumer market open to healthier products, is expected to provide a strong base for growth into future years.

The acquisitions of the Darlington Point Mill and the proposed Oats based business will accelerate the business plan and provide further value adding scale benefits to the expanding sales, manufacturing and supply chain footprint of the Cereal and Snacks business.

The strategic investment in the a2 Milk Company (a2MC) provides the Company and its shareholders a potentially significant value creation opportunity. We will continue to review all our options with regard to the a2MC investment, including evaluating the benefits of maintaining a strategic stake in a2MC.

Overall the Company anticipates benefits of the multi stage capital investment programme to accelerate increased group profits and returns from FY 2016.

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