freedom FOODS GROUP LIMITED
Making food better

Freedom Foods Group Limited ABN 41 002 814 235
80 Box Road Taren Point NSW 2229
T: +61 2 9526 2555 **www.ffgl.com.au** /FreedomFoodsGroup

27th February 2018

Freedom Foods Group Limited (ASX: FNP)
Half Year FY 2018 Financial Results

Freedom Foods Group Limited (**FNP** or the **Company** or the **Group**) has today released the Company's Half Year Results for the 6 month period ending 31st December 2017.

Highlights

- Net Sales Revenue of $159.6 million, an increase of 29% on the previous corresponding period. Comparable Net Sales Revenues (net of impact of the Vital Strength acquisition) increased 24% to $153.9 million.
- Operating EBDITA of $16.0 million, an increase of 28% on the previous corresponding period.
- Continued transformation of a Company driving growth through its icon brands, including Freedom Foods and Australia's Own in retail, food service channels in key markets of Australia, SE Asia and China.
- Introduction of new brands which have been accepted well by the market to date, including MilkLab in the liquids category and Messy Monkeys, Crafted Blends, Arnold's Farm and Barley+ in the cereals and snacks category.
- Completion during the half of major capital expenditure projects across the Group, including a new state-of-the-art UHT dairy and plant milk processing facility at Ingleburn in South West Sydney, which will drive material ongoing earnings benefits over the medium term.
- Successful transfer of operations from Taren Point to the Ingleburn site with minimal disruption, with the formal closure of Taren Point occurring in December 2017. Costs of $4.8 million associated with the discontinued operations were expensed during the half year period.
- Successful integration of the Vital Strength acquisition, with revenue growth from increased retailer distribution and new product launches.
- Positive early sales performance from a pipeline of differentiated product innovation across all key categories introduced progressively from August 2017.

Outlook

- As outlined at the Annual General Meeting, the Company estimated FY 2018 net sales revenues to be in the range of $360 to $380 million. The Company now expects net sales revenues to be at the higher end of this range. The impact of this is expected to flow through to improved margins and increased operating EBDITA contribution from the 1st half. The full benefit of this growth and capital expenditure initiatives is expected to further grow sales and earnings into FY 2019 and beyond.
- The Company is continuing to experience a significant increase in forward demand for its branded products and its capabilities to produce products efficiently for major customers, beyond expectations from that outlined at the Full Year 2017 results. This growing demand in dairy, plant and cereal reflects the positive impacts on the Company of structural change within the Australian dairy industry, demand from customers for access to products derived from the Company's expanded operational footprint and increasing brand penetration providing increased market share in key channels in Australia, SE Asia and China.
- Investment in value added dairy nutritional capabilities currently underway provides further growth opportunities beyond the operational and channel developments outlined above.
- The Company is increasingly strategically well positioned to build into a major global food and beverage business with scale in key food and beverage platforms providing diversification in sales, together with earnings growth from key markets and channels in Australia/ New Zealand, China, SE Asia and North America.

Financial Summary

The Company achieved an underlying Operating EBDITA of $16.0 million, 28% above the previous corresponding period.

This result reflects a positive operating performance within a period of significant change for the Company, with the completion of major capital investment programs at Ingleburn and Shepparton, the transfer of operations from the Taren Point site to Ingleburn and investment in expanding packaging formats and technology platforms.

The statutory net profit after tax for the period was $3.0 million. Included in the statutory net profit result are costs not representing underlying performance, namely unrealised foreign exchange losses and restructuring costs including costs and provisions relating to discontinued operations. During the period, the Company ceased production of plant based beverages at its Taren Point site, with operations relocated to its new UHT facility at Ingleburn progressively from September to December 2018. The restructuring costs provision covers factory closure costs, staff redundancy costs and write down of inventory costs on product formats to be discontinued. The total value of this provision is still being finalised as the transfer of the plant and equipment to other sites is ongoing, although any further costs are expected to be materially less than the 1st half costs.

The statutory result also included a pre-tax gain on sale of the Ingleburn land and buildings of $3.3 million.

The Company reported an operating net profit before tax of $7.6 million, an increase of 4% from the prior corresponding period, reflecting increased operating EBDITA, offset by higher depreciation and finance costs as compared to the previous corresponding period.

The income tax expense reflects an operating tax rate of approximately 34%, with the higher rate for the period primarily relating to changes in timing and permanent differences treatment.

Each of the business units increased gross margin and trading EBDITA contribution (before group sales and corporate costs).

- The Cereal and Snacks operations delivered increased operating earnings reflecting growth in sales in branded and non-branded activities in both Australia and China. Higher logistics costs against plan from requirement for additional off site storage locations impacted the result.

- Plant Based Beverage operations (substantively produced at the Taren Point site during the half) delivered increased sales, reflecting growth in retail and food service brands, with operating contribution ahead of the prior year period.

- Dairy operations at Shepparton achieved significant sales growth, reflecting increasing demand in Australia, China and SE Asia. Total contribution improved through increased sales and higher factory utilisation during the period, with higher pricing for cream and sales of milk protein concentrate (commencing calendar 2018) expected to positively impact margins from calendar year 2018.

- Nutritionals contribution reflected increased sales of high margin Vital Strength branded products.

- Specialty Seafood achieved strong sales growth with margin offset by unfavourable cost of goods and exchange rate impacts on purchasing in canned Salmon and Sardines from Canada.

- Group Services costs increased during the year, reflecting primarily a significant investment in sales capability in Australia (retail, food service), SE Asia and China necessary to manage the growth of the Company.

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

6 Months to 31 December 2017 (A$ million)	2017	2016	Movement
Operating EBDITA[1]	**16.0**	**12.5**	**3.5**
Gain on sale of Ingleburn	**3.4**	**0.0**	**3.4**
Other costs not representing underlying performance [2]	**(6.1)**	**0.2**	**(5.9)**
Employee Share Option Expense (non cash) [3]	**(0.4)**	**(0.2)**	**(0.1)**
Statutory EBDITA	**12.9**	**12.5**	**0.4**

Note:
1. *Operating EBDITA (Earnings before depreciation, interest, tax and amortisation) 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.*
2. *H1 FY 2018 other costs not representing underlying performance includes once off unrealised foreign exchange loss of $780k and restructuring costs of $4.8m including costs relating to discontinued operations at Taren Point realised in the half.*
3. *Non cash employee share option expense of $356k* in H1 FY 2018.

Segment Financials

6 Months to 31 December 2017 (A$ million)	Cereal Snacks	Plant	Dairy	Seafood	Nutritionals	Other	Total
Net Sales Revenue	**52.5**	**36.3**	**57.4**	**7.7**	**5.7**		**159.6**
Trading EBDITA	**7.3**	**8.2**	**4.6**	**0.9**	**1.3**		**22.4**
Equity Associates[1]						**0.2**	**0.2**
Shared Services[2]						**(6.6)**	**(6.6)**
Operating EBDITA	**7.3**	**8.2**	**4.6**	**0.9**	**1.3**	**(6.4)**	**16.0**
Net Sales Change (YOY %)	**+19.2%**	**+23.0%**	**+30.9%**	**+18.9%**	**+100%**		**+28.8%**
Net Sales Change (YOY $ million)	**8.5**	**6.8**	**13.5**	**1.2**	**5.7**		**35.7**

Note:
1. *Equity Associates is share of NPAT of Australian Fresh Milk Holding (10% equity interest held by Freedom Foods Group).*
2. *Shared Services costs includes sales and group services, it excludes non-cash employee share option expenses of $356k.*

6 Months to 31 December 2017	2017	2016	
	$'000	$'000	% Change
Net Sales Revenue	159,563	123,852	+ 28.8%
EBDITA (Underlying Operating) [1]	16,008	12,500	+ 28.1%
EBDITA (Statutory)	12,896	12,461	+ 3.5%
Equity Associates Share of Profit[2]	240	240	-
Pre-Tax Profit (Operating)	7,584	7,277	+ 4.2%
Pre-Tax Profit (Reported)	4,472	6,744	- 33.7%
Income Tax (Operating)	2,579	1,965	+ 31.3%
Net Profit (Operating)	5,005	5,312	- 5.8%
Net Profit (Reported)	2,951	4,475	- 34.0%
Interim Ordinary Dividend (cps)	2.25	2.00	+ 12.5%
Interim CRPS Dividend (cps)	1.35	1.35	-
EPS (cents per share) (Fully Diluted for CRPS)	1.61	2.51	- 35.8%
EPS Operating (cents per share) (Fully Diluted)	2.45	4.58	- 46.5%
Net Debt / Equity	42.5%	9.2%	
Net Assets per Share (cents) (3)	160.5	179.3	- 10.5%
Net Tangible Assets per Share (cents) (3)	108.6	143.1	-24.1%

Notes:

1. *Underlying Operating EBDITA excludes pre-tax abnormal or non-operating charges including an add back of non cash employee share option expense of $356k. H1 FY 2018 other costs not representing underlying performance includes once off unrealised foreign exchange loss of $780k and restructuring costs of $4.8m including costs relating to discontinued operations at Taren Point realised in the half*
2. *Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group).*
3. *Shareholders equity reduced between 31st December 2016 and 30th June 2017, reflecting a debit to reserves of $54.1 million. This related to the acquisition impact of acquiring the ACM shareholding in Pactum Dairy Group (PDG) in February 2017. As PDG was an existing controlled entity of the Group, the accounting standards require the goodwill generated on acquisition to be debited against the common control reserve, with a consequent negative impact on equity.*

Plant Based Business Group

Branded Portfolio

Strong Growth in Australia's Own, MilkLab and Blue Diamond Brands in Plant Based Beverages

Plant Based branded beverage sales continued the upward trend from the 2017 financial year, with volume growth compared to the previous corresponding period, reflecting strong growth in the Australia's Own and MilkLab range and also Blue Diamond Almond Breeze brand in retail and food service channels.

The trend towards plant based food and beverages are increasing in Australia and global markets, driven by a desire for healthier and "cleaner" lifestyles, which is motivating consumers to focus on fruits, vegetables, nuts, seeds grains and other botanicals.

In retail grocery, the Company remains the largest supplier of Almond beverages, including products under the Australia's Own brand, our licensed Blue Diamond Almond Breeze brands and private label offers.

As part of a focus on building beyond traditional retail segments and channels, the Company launched new products in plant milks and continued to invest behind products made for food service channels, with a particular focus on coffee milk applications.

The Company sees significant growth opportunity in the growing and high margin food service channel and is further expanding its food service field team to accelerate this business area into 2018. This investment and growth aligns with expanded production capabilities at Ingleburn.

During the period, the Company invested in sales and distribution to develop new channels in SE Asia and the Middle East, with increasing sales of the Australia's Own range and MilkLab.

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

New World Class UHT Facility at Ingleburn, South West Sydney

Largest investor in UHT technology and capacity in Australia

During the 1st half period, the Company relocated Plant Based Beverage operations from Taren Point to the new state-of-the-art UHT facility at Ingleburn in South West Sydney.

The commissioning process and transfer of operations to the Ingleburn site was undertaken with minimal disruption, with the formal closure of Taren Point occurring in December 2017.

1st stage installed UHT carton capacity at Ingleburn is approximately 80 million litres, from capacity at Taren Point at closure of approximately 50 million litres. To provide for increased demand in both plant and dairy categories, the Company is installing additional filling capacity at Ingleburn, including an upgrade of fillers relocated from the Taren Point site.

Capabilities for yoghurt processing and a state-of-the-art PET plastic bottle capability for both long life (UHT) and short shelf life (ESL) formats will be installed during calendar 2018.

The Ingleburn facility has been established with the capability to also process dairy products. Increasingly the Ingleburn site will process high value added dairy formats to complement the Shepparton facility, while providing additional capacity to meet increasing demands for UHT dairy formats. The site is in the process of obtaining Chinese government export registration to facilitate export of dairy products to China but, in the meantime, can produce dairy for all other markets

Dairy Beverage Business Group

Branded Portfolio

Dairy based branded beverage sales continued the upward trend from the 2017 financial year with sales and profit growth over the previous corresponding period, reflecting increased sales of Australia's Own Kid's Milk and the So Natural and Vitalife brands in domestic food service and export markets.

Australia's Own Dairy Range

The Company will launch in 2018 a range of Australia's Own UHT dairy milk products, including full fat, lite and skim milk products in 1 litre and 2 litre formats and cream in portion and 1 litre formats. These products are expected to be ranged in Australian retailers and retail channels in SE Asia and China. The product range will include A2 Protein Milk variants, cream and milk powder. Please refer to our separate announcement released with our half yearly report.

Australia's Own Kids Milk

Largest imported Kid's Milk brand in China

With significant ongoing marketing investment including point of sale promotion, sampling and sponsorship of leading children's TV programmes, the Australia's Own Kids Milk product has continued its strong growth trajectory, with the product now the largest imported Kid's Milk brand in China where it is distributed.

The Company has been producing the Kid's Milk product from its Taren Point site with production limited by capacity. During the period, the Company installed high speed 200ml capacity at its Shepparton operation, to provide for volume demand forecast to be excess of 60 million packs in calendar 2018. Additional capacity will become available at Ingleburn during calendar year 2018.

The Company expects the Kid's Milk product and other new product formats to be a significant contributor to growth and profitability.

Australia's Own Dairy Company China

As announced in July 2017, the Company entered into binding documentation with JLL to establish a new company called Australia's Own Dairy Company China (**AO China**) to expand our commitment to the growth of the Australia's Own Kid's Milk brand in China.

The new structure will provide a stronger strategic link between the existing JLL led branded operations in China (sales, marketing, and distribution) and Freedom led production in Australia (sourcing, processing, manufacturing).

AO China will continue to grow sales of Australia's Own branded Kid's Milk products in China, as well as developing plans for launch of other dairy products including Ambient Drinking Yogurt in 2018 and Infant Formula products under the Australia's Own brand.

Freedom Foods will subscribe for an initial 10% investment in AO China for a consideration of RMB22 million (approximately AUD$4.4 million at current exchange rates). Freedom Foods will have an option to subscribe for up to 30% of AO China within 3 years from the date of the initial subscription.

The transaction received China based regulatory approvals in February 2018 and expected to formally complete no later than 30th April 2018.

So Natural and Vitalife

Fastest growing dairy brands in online and offline channels in China

The Company has progressively developed the So Natural and Vitalife brands in the China market, commencing in 2014 through offline specialty channel distributors. Sales of "So Natural" and "Vitalife" UHT products have continued to grow through cross border ecommerce channels with the major online retailers JD.com and Tmall and through offline channels, including into coffee chains.

Shepparton UHT Operations

Largest supplier of Contract packed milk brands to China and Private Label milk in Australia

In Australia, the Company supplies a number of long term retail customers that provide a strong base of underlying volume and earnings support.

The Company continues to supply a number of key relationship customers in China including major dairy manufacturers and brand owners. In SE Asia, the Company has also developed other customer relationships in markets such as Hong Kong, Singapore, Philippines and Vietnam.

During calendar year 2018, volume at the Shepparton site will increase substantially as additional retail, other contract customers and Company branded product supply commences. This volume growth reflects demand in Australia, SE Asia and China. Total dairy milk volume processed for FY 2018 is estimated at 150 million litres, an increase of 75% on FY 2017 volume of 85 million litres. Total volumes for FY 2019 are currently estimated at approximately 250 million litres.

Sales of dairy based components including cream and milk protein concentrate (commencing 2018) will also increase, reflecting increased volume, pricing and demand.

New Capacity

Largest investor in UHT dairy technology and capacity in Australia

The Shepparton UHT operations are very well placed to benefit from the significant changes occurring in the production structure of the Australian dairy market.

During 1H 2018, the Company finalised installation at Shepparton of additional 1 litre format capacity as well upgrading processing capability and downstream packaging.

With a significant increase in forward demand for its capabilities, the Company is installing additional filling capacity at Shepparton, including an upgrade of processing and filling equipment relocated from the Taren Point site. The Company has ordered additional processing and filling upgrades for installation later in calendar 2018.

The Company will install yoghurt processing equipment at Ingleburn during calendar 2018. The drinking Yoghurt category is the fastest growing beverage category in China, with further growth anticipated including from other markets in SE Asia. The Company has significant demand for this product from its existing China based customers including opportunities to sell the product under the Australia's Own and So Natural brands in China. The Company will look to utilise these capabilities for products in Australia including manufacture of plant based yoghurt products.

The PET bottle capability to be installed at Ingleburn will facilitate expansion of our branded product range into retail, food service and Petrol & Convenience channels. It will also provide the capacity for domestic and export sales into China and SE Asia of premium dairy formats utilising dairy milk sourced from our associated company, Australian Fresh Milk Holdings (**AFMH**).

Dairy Supply - AFMH

Australia's largest single site dairy milking operation

AFMH operates Moxey Farms, a fully integrated dairy farming operation located in the Lachlan Valley, New South Wales, 340 km west of Sydney. Collectively the combined Moxey and Perich Group's Leppington Pastoral dairy milk production is the largest dairy milking operation in Australia.

FNP has a 10% shareholding in AFMH, with the balance held by the Perich Group's Leppington Pastoral Company Pty Limited (**LPC**), New Hope Dairy Holdings Co Ltd and the Moxey family. The Company equity accounted 10% of the net profit of AFMH in the period.

AFMH is currently completing an expansion project at Moxey Farms that began 2 years ago, allowing carrying capacity to increase from 3,500 to 8,000 milking cows. Milk production has increased from 50 to 75 million litres and, following completion of the last stage of this project, is expected to increase to 100 million litres per annum. This is part of a long term plan by AFMH to increase production by a further 100 million litres from additional sites in the Lachlan valley and elsewhere. The Company intends to utilise a growing proportion of this expanded and new output from Moxey Farm for its Australia's Own Kid's Milk and other dairy product formats.

The Company converted its $0.9 million of loans to equity in AFMH in the period as part of the shareholders contribution to the expansion plans.

Our total investment in AFMH at 31 December 2017, including loans referred to above, was $8.7 million.

Direct Dairy Milk Supply

During the half year period, the Company expanded its "Freedom Farmers" sourcing strategy in relation to establishing direct supply contracts with dairy farmers in Victoria and Southern New South Wales that produce consistent high quality dairy milk.

The direct supply strategy seeks to align a medium term volume, quality and pricing relationship that supports the growth demands of the Company and provides our farmer partners with a stable revenue basis to invest in their farms. The Company intends to expand this direct supply strategy to provide for growing milk demand.

Nutritionals Business Group

The Company is leveraging its growing dairy capabilities to build a branded high margin product portfolio in specialty nutritional products.

Dairy nutritionals are increasingly used in segments such as bakery & confectionery, dairy products, convenience foods, infant milk formula, performance & clinical nutrition. The market for dairy ingredients is projected to show strong growth in upcoming years due to increasing awareness about the health benefits of nutritional food products.

The Company is establishing a nutritionals capability that will provide for protein standardisation and ability to separate milk into industrial grade protein components, including Casein, Lactoferrin, Alpha-lactalbumin and Whey Protein Isolate. These dairy nutritional ingredients derived from our dairy milk supply base can be utilised in current and new product formats either manufactured by the Company for our branded products or supplied to our customers for their products.

The 1st stage protein standardisation capability has been installed and will contribute to sales and earnings in 2H 2018. The platform is being established adjacent to the existing UHT site at Shepparton in Victoria, providing synergies with the existing UHT operation.

The 2nd stage protein fractionation and drying capability will be installed over the next 18 months, with a potential for a material contribution to sales and earnings thereafter.

Performance Nutrition Brands

Following acquisition in May 2017, the Company has operated the “Vital Strength” and “UProtein” brands that market a range of performance and adult nutrition products. The Vital Strength brand is recognised as a leader in high quality nutrition products, sold through retail grocery, pharmacy and fitness retailers in Australia.

The Company manufactures all its protein powders at its own blending and packing facility in Marrickville, Sydney.

The Vital Strength business activities will enable Freedom Foods to expand its brand and category segment offering into the performance and adult nutrition market in Australia, China and SE Asia, leveraging existing retail customer and distribution capabilities. Importantly, it provides a unique vertical integration to the Company’s planned dairy nutritional capabilities.

The Company developed and launched in 1H 2018 a range of snacks and beverages to complement the existing Vital Strength range of protein powers and supplements. The new range builds on the Vital Strength brand proposition to deliver a higher protein serve per gram as compared to other competitor products, based on cleaner protein sources with fewer ingredients. The products are performing well and are expected to gain increased ranging and distribution during calendar year 2018.

The Company launched the Vital Strength range in November 2017 through the Company’s ecommerce platforms in China.

In the medium term, the business will benefit from sourcing internally key dairy protein ingredients from the dairy nutritionals platform at Shepparton. This will lead to significant cost improvements and further efficiencies including additional product claims not available to other competitors.

Adult Nutrition

The Company will launch a range of Adult Nutrition products from May 2018. The products will provide a clear functional benefit for the over 40 adult target market, including in powder and drinkable formats, distributed through retail and pharmacies.

Infant Nutrition

The Company continued to cautiously and carefully build distribution of Australia’s Own “Diamond” Infant Formula for Step 1 to 3 in Australia and SE Asia markets.

In Singapore, Australia’s Own “Diamond” Infant Formula was launched with FairPrice retail chain in June 2017. Strong support to the launch from FairPrice and the Singapore government has seen good consumer response, with repeated orders over the past 6 months.

The Company is developing a significantly enhanced version of the Australia’s Own “Diamond” Infant Formula product for launch in 2018. The product range will be distributed in Australia, SE Asia and in the medium term into China leveraging off Australia’s Own China brand and distribution capabilities.

Blending and Packing Capabilities

Aligned to the Company’s investment in value added protein capabilities, the Company will commence construction in March 2018 of a blending and packing facility at its Shepparton site to package product formats in performance, adult and infant nutrition.

Aligned to these capabilities, the Company is well progressed with one of its China based partners for potential cooperation on certification of the proposed facility once completed with the China Food and Drug Administration (**CFDA**) for sale of infant and other products to China.

With these capabilities established, the Company's site at Shepparton would comprise unique vertically integrated dairy processing facility, with capability to package milk and speciality powder products utilising the value chain derived from its core milk supply.

Cereal and Snacks Business Group

Building a global leader in Healthy Cereals and Snacks

Australia

Number 1 Health Food cereal brand and growing

Freedom Foods branded products delivered sales growth in its Cereal and Snacks segments compared to the prior year period.

Further innovation in value added cereals and snacks including products developed for on the go channels in food service were launched from August 2017. These include the Messy Monkeys kids snacking range, Barley+ Cereals and Snacks and Crafted Blends snacks. Growth in traditional format products following product and format renovation, as well as stronger engagement with retailer customers, saw the business grow its share of the Health Cereal category, with a +40% market share.

The Freedom Foods "Arnold's Farm" brand achieved growth in its oat based cereal products through its exclusive distribution in Woolworth's supermarkets.

The Freedom Foods business is the category leader in the Health Food section of retail supermarkets. Our expanding innovation, product range and formats through our manufacturing capabilities provides a unique opportunity to continue to build the Freedom Foods brand as a leading and trusted brand for healthier tasty cereal and snacks options.

The Company will launch in May 2018 an expanded range of Freedom Foods branded Cereals and Snacks in both the Health and Mainstream retail channels.

China and South East Asia

Fastest growing Australian cereal brand on Alibaba's Tmall

Within the online cereal category, sales have progressed well, with further growth achieved and increasing brand recognition in this small but growing category in China.

The Freedom Foods "Arnold's Farm" brand is one of the top 3 oat cereals on Tmall International.

The market for oat based cereal products in China, including cluster and premium muesli porridge formats, is expected to grow, driven by demand for better quality oats in existing consumption formats, and also changing consumption patterns.

The Company believes its sourcing and conversion capabilities uniquely position it to build a significant branded business in high quality imported oat based Cereal and Snacks.

As a result, the Company is increasing its investment in building direct sales representation to expand distribution of its key brands including "Arnold's Farm" in traditional off line distribution channels in key tier 1 and tier 2 cities. Over the next 12 months, the Company will expand its direct sales team in China to 50 personnel from 12 as at December 2017.

North America

Emerging specialty food and beverage capability in the USA

From 1 January 2018, the Company has restructured its business operations in North America to provide for an acceleration of its sales and earnings base.

Freedom Foods partnership with North American group AFT Holdings has been established through a new entity that will form part of the Specialty Cereal and Snacks Business Group. Freedom Foods holds a 75% equity ownership with rights to acquire AFT Holdings' interest over a 3 to 5 year period.

Freedom and AFT are investing together in building a stronger local experienced team in sales, operations and finance. AFT Holdings will provide back office administrative resources. Under the new ownership arrangements, Freedom Foods will expand the offering of Freedom Foods branded products that go beyond the Allergen Free base, leveraging its unique global position in healthy cereals and snacks.

As part of this strategy, the Company launched the Barley+ cereal range in retail grocery in the USA from July 2017. Additional business has also been secured in both branded and private label supply, with a leading private label retailer ranging a number of cereal products from March 2018. The Company also intends to launch its Messy Monkey range, as well as its specialised MilkLab "coffee milk" offering in targeted cities in the USA over the next 12 months.

Non Branded Portfolio

The Company is a significant supplier of cereal, snack and grain based ingredients to retailers and other brands, reflecting a total category approach that leverages our manufacturing platform and provides a strong base of earnings to further invest into our brands.

The Company believes its continued investment in product development and leading manufacturing capability in cereal and snacks provides for significant long term growth in supporting retailer and other strategic branded products in Australia, China and North America.

Freedom Farmers

Building a fully integrated paddock to plate provider

As part of ensuring best quality and growth in supply of key grains to our Freedom Foods' cereal and snack production facilities, the business expanded its Freedom Farmers platform, with a number of key farmer groups engaged to build the Company's specialised grains supply platform over the coming years that will guarantee our strategy of being a high quality integrated paddock to plate provider. Australian sourcing of all key grain based ingredients including Oats, Barley and Maize and Australian manufacturing is expected to be a key source of competitive advantage for the Company over time.

Cereal and Snacks Manufacturing Base

The Company will invest in additional packaging formats in calendar 2018 to meet the growing demands of our branded portfolio and other customers in Australia, China and SE Asia.

Specialty Seafoods

Number 1 Sardine brand in Australasia and growing salmon sales

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

The Paramount Salmon brand performed well during the period, with strong growth in market share (24% share in 1 retailer +26% growth on prior year period) across red and pink salmon segments.

The benefit of strong sales growth in the period was partially offset by unfavourable cost of goods and exchange rate on purchasing in Salmon and Sardines.

The business remains focused on positioning for growth in calendar 2018 through category leadership of the Specialty Seafood channel, including a number of new products to be launched under the Brunswick brand and increases in retail distribution.

During the period, the Company established a dual supply base for Atlantic sourced Sardines to reduce exposure to a single fishing area. As part of its relationship with AFT Holdings, the Company will utilize the Freedom Foods North America structure to set up a direct procurement capability for all seafood sourcing. As part of this, the long-term sourcing partnership with Bumble Bee Foods of North America will conclude during 2018.

Health Care Practitioner Network

To support the Group's expanding nutritional product capabilities, it has continued to invest in a health care practioner education program, led by Dr Sonja Kukuljan PhD, Group Nutrition Manager. The strategy includes promoting strong scientific credentials behind the Company's key products to the health care practitioner network in Australia and North America, with plans to expand further into China and SE Asia in the medium term.

Innovation Capabilities

The Company intends to continue to be a leading innovator in its chosen product and channel segments.

As part of this, the Company continues to invest significantly in its innovation capabilities across its business groups, including appointment of product development personnel. This investment aligned to its significant capital investment in manufacturing capabilities provides a strong base to accelerate new product development pipelines.

A total of 24 products developed during FY 2017 were launched from August 2017. Approximately 40 new branded products will be launched across the business groups from May 2018.

Capital Expenditure

The Company has substantially completed a capital expenditure program of $300 million over the last 3 years. This has included construction of 2 greenfields sites at Shepparton and Ingleburn and incremental development of 2 other sites at Leeton and Dandenong as well as investment in technology platforms.

The capital expenditure now provides a strong operational platform to significantly increase the Company's sales and operating financial returns.

Ongoing operational capital expenditure through 2H 2018 and into FY 2019 will relate to new capability and/or product format expansion within our key operating sites at Ingleburn, Shepparton and Leeton. The Company will continue to build on these sites as our primary operating platforms for the future, providing operating efficiencies through maximizing common overhead and expense base.

Corporate and Group Management

Talent and Technology

The Company continued to make investments in people and capability to ensure the Company can implement and manage growth. During the period, we invested in talent and capability in sales and innovation across beverage, cereal and snacks capability as well as operations, finance, legal and compliance.

For our expanding capital projects initiatives, we increased our capability to manage and install our key pieces of equipment, an investment that will provide for ongoing capability at our sites, reducing reliance on 3rd party providers. All our major installations, including the Ingleburn operation, have been managed by our own teams, with no external builders or project managers. This provided a significant time and cost saving to the Company.

We are developing our people and talent identification processes to align with the Company's rapidly expanding sales and operational platform.

During the half year period, the Company further progressed on the transformation of its IT / ERP systems. Further investments in technology will be made to ensure we increase efficiency and productivity.

Capital Management

Liquidity and Finance Facilities

The Company held cash of $3.6 million at 31st December 2017, with total borrowings of $141.2 million, comprising term facilities, equipment finance leases and working capital facilities. Net debt at 31st December was $137.7 million, with a net debt to equity ratio of 42.5%.

Cash generated from operations was $27.0 million, an increase of $17.9 million from prior year period. Cash receipts included the impact of changes to the working capital financing structure of the Company at December.

As outlined in August 2017, the Company has funded a significant increase in working capital requirements to allow for the smooth transition of production from Taren Point to Ingleburn, including raw materials, packaging, labour, associated costs and the cost of discontinued operation. These transitionary working capital requirements, estimated in be excess of $10 million, have started to reduce into the 2H 2018 as Ingleburn has moved towards full operation.

During the period, the Company invested $43.8 million in capital expenditure relating to the balance of construction and equipment payments, commissioning and related costs for the new facilities at Ingleburn, capital expenditure on plant and equipment at Shepparton, technology platform development and deposits for committed capital expenditure in 2H 2018.

In December 2017, the Company completed the sale and leaseback of the Ingleburn land and buildings and the entering into of a new syndicated banking facility. Ownership of plant and equipment at Ingleburn remains with the Group. Following shareholder approval of the sale and leaseback of the Company's Ingleburn land and buildings for a net consideration of $74.9 million, the transaction was completed contemporaneously with the Company entering into a new 3 year $236 million syndicated banking facility with its long-term banking partners HSBC and NAB. The facility creates a more flexible group finance and liquidity structure that will provide for the working capital and capital expenditure needs of the business that will be required to support continued revenue growth.

Dividends

Consistent with the positive forward outlook for the Group's performance, the Company will pay a fully franked interim dividend of 2.25 cents per ordinary share in April 2018, an increase of $0.25 cents per share from the interim dividend per ordinary share paid in April 2017.

The record date for determining entitlements is 5th April 2018 and the payment date is 30th April 2018.

The Company's Dividend Reinvestment Plan (**DRP**) remains open.

The Company will pay a fully franked interim converting preference share dividend in accordance with the terms of the converting preference shares. The record date for determining entitlements is 5th April 2018 and the payment date is 30th April 2018.

There are 101,627 converting preference shares remaining on issue at 31st December 2017.

Group Outlook

Building a Global Food and Beverage Business based in Australia

The Company is increasingly strategically well positioned to build into a major global food and beverage business with scale in key food and beverage platforms providing diversification in sales, together with earnings growth from key markets and channels in Australia / New Zealand, China, SE Asia and North America.

Our key brands "Freedom Foods" and "Australia's Own" will be at the forefront of driving our returns from our innovation and manufacturing capabilities in Australia and international markets.

The Company has created a unique supply and manufacturing footprint in its key categories. We believe the ability to control supply and manufacturing inputs and more quickly deliver innovation across a range of product formats for our brands and our key customers is a key strategic advantage in the medium to long term, particularly in value adding Australia's unique agricultural base. While this has required significant capital investment and patience, we are now beginning to see the operating and financial benefits of our $300 million capital expenditure programme and will continue to invest to enhance these outcomes.

The completion of our new plant and dairy beverage capabilities at Ingleburn in Sydney will result in a material increase in sales and profitability over the medium term, with further growth opportunities through meeting the increasing demands of our brands as well as our private label and other branded customer base.

With a large and significantly increasing base of dairy volume within the Company, the focus is on driving the dairy business towards specialty and high value-added products. The development of a specialised nutritionals platform at Shepparton aligned to the dairy UHT operations will provide for protein standardisation and the ability to separate milk into industrial grade pure protein components for use in our branded products and for sale to key strategic customers. The Vital Strength performance nutrition brand and ability to expand further across the nutritional products spectrum is a key part of this strategy and will materially contribute to sales and earnings in the medium term.

The Cereal, Snacks and Milling business is strategically well positioned to build a significant growth platform in multiple products, channels and distribution across Australia/NZ, China, SE Asia and North America.

Our operating profits will increase through the investment cycle, balanced against a requirement to invest in people, systems and process to manage a scaled and diversified business platform.

As outlined at the Annual General Meeting, the Company estimated FY 2018 net sales revenues to be in the range of $360 to $380 million. The Company now expects net sales revenues to be at the higher end of this range, with net sales revenue growth upwards of 40% on sales of $263 million in FY 2017. The impact of this is expected to flow through to improved margins and increased EBDITA contribution from the 1st half. The full benefit of this growth and capital expenditure initiatives is expected to further grow sales and earnings into FY 2019 and beyond.

The Company is continuing to experience a significant increase in forward demand for its capabilities, beyond expectations from that outlined at the FY 2017 results. This growing demand in dairy, plant and cereal reflects the positive impacts on the Company of structural change within the Australian dairy industry, demand from customers for the Company's expanded operational footprint and increasing brand penetration providing for increased market share in key channels in Australia, SE Asia and China.

Investment in value added dairy nutritional capabilities currently underway provides further growth opportunities beyond the operational and channel developments outlined above.

For further information, please contact:

Rory J F Macleod
Managing Director and CEO
Freedom Foods Group Limited
+612 9526 2555

Media Enquiries:

Ian Pemberton P&L Corporate
+ 61 402 256 576

FNP Forward Looking Statement

Freedom Foods Group Limited (FNP) advises that this document and any related materials and cross-referenced information may contain forward looking statements (including statements, calculations and projections concerning the anticipated performance of FNP and the industries and markets in which it operates) that may be subject to significant uncertainties outside of the control of FNP and matters and events unknown at this time.

No representation is made as to the accuracy or reliability of forward looking statements or the assumptions on which they are based. These forward looking statements may or may not prove to be correct and FNP and any person associated with the preparation of this document accepts no responsibility or liability in relation to their accuracy or reasonableness.

You are cautioned not to place reliance on any forward looking statement and must make your own independent investigations and/or seek professional advice regarding the accuracy, reasonableness and completeness of any forward looking statement or other information in this document.