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30th August 2018

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

Freedom Foods Group Limited (**FNP** or the **Group**) has today released the Group's full year Results for the 12 month period ending 30th June 2018

Highlights

- Annual net sales increases 34.5% to $353 million, in line with revised guidance (issued July 2018)
- Operating EBDITA rises 49.5% to $39.2 million, operating EBDITA margins increased to 11.1% from 10.0%
- Operating net profit increases 96.9% to $19.4 million, statutory net profit up 68.7% to $12.7 million
- Final dividend increased to 2.75 cents per share from 2.25 cps
- FY 2019 net sales guidance unchanged at $500 million to $530 million
- Full benefit of increased demand and capital expenditure initiatives expected to further grow sales and earnings into FY 2020 and beyond
- Continued transformation now driving growth through iconic brands including Freedom Foods and Australia's Own in retail and food service channels in key markets of Australia, SE Asia and China:
    - Launch of over 70 new product formats into retail grocery, food service and export markets, supported by increased marketing expenditure
    - Strong growth in new brands including MilkLab and Almond Breeze Barista in the food service beverage category and Messy Monkeys, Crafted Blends, Arnold's Farm and Barley+ in the cereals and snacks category
    - Launch of new brands in retail grocery channel in the 4th quarter including Australia's Own into the UHT dairy category and Heritage Mill in the mainstream cereal and snacks category
    - Total sales from Group brands increased to 60% of total revenues from 53% in FY 2017
    - Growth achieved in all key categories and channels, with retail grocery performance in Australia above category average growth rates and strong demand for dairy and cereals in China and SE Asia
- Freedom Foods is one of Australia's leading investors in state-of-the-art food and beverage manufacturing capability, investing more than $129.4 million in plant and equipment in FY 2018:
    - Major capital expenditure projects across the Group completed in the second half of FY 2018, including a new state-of-the-art UHT dairy and plant-based beverage 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 Sydney to the Ingleburn site with minimal disruption, with the formal closure of Taren Point in December 2017
    - Shepparton operations upgrading to volume capacity of 500 million litres per annum, aligned to investment in new Nutritionals capability
    - Investment to realign Leeton operation towards snacking capability for extruded snacks and popcorn as well as nut based bar capability
- Successful integration of the FY 2017 Vital Strength acquisition, with revenue growth from increased retailer distribution and new product launches
- Completion of 10% equity ($4.7 million) investment into Australia's Own Dairy Group China (AO China), operating the Australia's Own branded Kid's Milk products in China
- Successful completion in March 2018 of a $200 million equity raising to fund acceleration of incremental capacity expansion programs and provide balance sheet flexibility for growth including working capital requirements and potential acquisitions and alliances

Outlook

Rory Macleod, Managing Director and Chief Executive Officer, commented:

"The Group is increasingly well positioned to strategically build into a major global food and beverage business with scale in key food and beverage platforms.

"As outlined in July 2018, based on the current portfolio, product range and new contracts with key customers coming on stream in the first half of FY 2019, the Group expects net sales revenue in FY 2019 to be in the range of $500 million to $530 million.

"The Group continues to experience strong demand across its business activities in Australia, China and SE Asia. This growing demand in dairy, plant-based beverage, cereal and snacks reflects the positive impacts of structural change within the Australian dairy industry, demand from customers for the Group's expanded operational footprint and increasing brand penetration providing for increased market share in key channels and categories in Australia, SE Asia and China.

"Major capital expenditure projects including the upgrade to the Shepparton UHT operation, nutritionals, yoghurt and UHT bottle capabilities are generally on plan.

"New product revenue streams from these major capital expenditure projects are expected to materially positively impact sales and earnings into FY 2020 and beyond."

Financial Summary

The Group delivered an increased financial performance with substantial improvements in sales revenue, earnings and cash generation. Increased investment in innovation, brand and market development assisted in growth in each of the key business divisions and markets.

The Group recorded Net Sales Revenue of $353 million, an increase of 34.5% on the previous corresponding period. Comparable Net Sales Revenues (net of impact of the Vital Strength acquisition) increased 30% to $338.5 million.

Operating EBDITA rose 49.5% to $39.2 million and was ahead of top line sales growth performance. Operating EBDITA margins increased to 11.1% from 10.0%.

The result reflects a positive operating performance within a period of significant change for the Group, with the completion of the new state-of-the-art UHT dairy and plant-based beverage processing facility at Ingleburn, the transfer of operations from the Taren Point site to Ingleburn, expansion of capabilities at Shepparton and Leeton, and investment in expanding packaging formats and technology platforms.

Investment in brand building and marketing increased by $5.0 million to $8.8 million.

The Group achieved an operating net profit before tax of $19.4 million, a gain of 96.9%, reflecting increased operating EBDITA, offset by higher depreciation costs as compared to the previous corresponding period.

The statutory net profit after tax for the period was $12.7 million. This included unrealised foreign exchange losses and restructuring costs including costs and provisions relating to discontinued operations. During FY 2018, the Group ceased production of plant-based beverages at Taren Point, with operations relocated to its new UHT facility at Ingleburn progressively from September to December 2017. The restructuring costs provision covers factory closure costs, staff redundancy costs and write down of inventory on discontinued product formats.

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

The income tax expense reflects an operating tax rate of approximately 13%, primarily relating to an upfront deduction being claimed for new product development costs, which have increased in the latest period. The Group expects the future tax rate to be broadly in line with the Australian corporate tax rate.

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

- Plant-Based Beverage operations (including six months of production at Taren Point during the period) delivered increased sales, reflecting growth in retail and food service brands, with operating contribution ahead of the prior year. The result reflected increased margins in food service and improved operating cost at Ingleburn compared to the Taren Point operation.

- 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 concentrates positively impacting margins from January 2018.

- Nutritionals contribution reflected increased sales of high margin Vital Strength powder based branded products. New product launches in bar and beverage formats during the year contributed to sales with contribution margin lower compared to powders, reflecting sourcing from contract manufacturers. These products will be manufactured internally during calendar 2019.

- The Cereal and Snacks operations delivered increased operating earnings reflecting growth in sales in branded and non-branded activities in Australia and China.

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

- With increasing focus on building the Group's brands, investment in brand building and marketing increased by $5.0 million to $8.8 million.

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

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

12 Months to 30th June 2018 (A$ million)	2018	2017	Movement	Movement
Underlying Operating EBDITA (1)	**39.2**	**26.2**	**+ 13.0**	**+49.5%**
Gain on sale of Ingleburn	**3.3**	**-**	**+ 3.3**	
Other costs not representing underlying performance (2)	**(9.7)**	**(2.4)**	**- 7.3**	
Employee Share Option Expense (non cash) (3)	**(1.3)**	**(0.4)**	**- 0.9**	
Statutory EBDITA	**31.5**	**23.3**	**+ 8.2**	**+34.8%**

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. *FY 2018 other costs not representing underlying performance includes once off unrealised foreign exchange loss of $206k and restructuring costs of $8.6m including costs relating to discontinued operations at Taren Point, acquisition costs of $217k, bank facility fee of $685k.*
3. *Non cash employee share option expense of $1.3 million* in FY 2018.

Segment Financials

12 Months to 30th June 2018 (A$ million)	Cereal Snacks	Plant	Dairy	Seafood	Nutritional	Other	Total
Net Sales Revenue	103.3	81.2	139.2	15.0	14.4	-	353.0
Trading EBDITA	14.0	18.7	16.9	1.4	3.6	-	54.7
Equity Associates (1)	-					0.5	0.5
Corporate Costs (2)	-					(15.9)	(15.9)
Operating EBDITA	14.0	18.7	16.9	1.4	3.6	(15.4)	39.2
Net Sales Change (YOY %)	+ 15.3%	+ 26.4%	+ 49.4%	+ 8.4%	+ 698%		+ 34.5%
Net Sales Change (YOY $ million)	13.7	17.0	46.0	1.2	12.6		90.5

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 $1.3 million.*

12 Months to June 2018	2018	2017	
	$'000	$'000	Change
Net Sales Revenue	352,987	262,481	+ 34.5%
EBDITA (Underlying Operating) (1)	39,180	26,240	+ 49.5%
EBDITA (Statutory)	31,501	23,375	+ 34.8%
Equity Associates Share of Profit (2)	480	480	-
Pre Tax Profit (Operating)	22,297	12,213	+ 82.6%
Pre Tax Profit (Reported)	14,617	9,348	+ 56.4%
Income Tax (Operating)	2,899	2,363	+ 22.7%
Net Profit (Operating)	19,399	9,850	+ 96.9%
Net Profit (Reported)	12,715	7,539	+ 68.7%
Final Ordinary Dividend (cps)	2.75	2.25	+ 0.50
Final CRPS Dividend (cps)	1.35	1.35	-
Full Year Ordinary Dividend (cps)	5.00	4.25	+ 0.75
EPS (cents per share) (Fully Diluted for CRPS)	6.33	4.01	+ 57.6%
EPS Operating (cents per share) (Fully Diluted)	9.25	6.51	+ 42.0%
Shareholder Equity	529.9	321.4	+ 64.2%
Net Debt / Equity	6.8%	56.3%	
Net Assets per Share (cents)	217.2	160.0	+ 35.7%
Net Tangible Assets per Share (cents)	171.6	108.9	+ 57.5%

Notes:
1. *FY 2018 other costs not representing underlying performance includes once off unrealised foreign exchange loss of $206k and restructuring costs of $8.6m including costs relating to discontinued operations at Taren Point, acquisition costs of $217k, bank facility fee of $685k.*
2. *Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group).*

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 to grow, with volume and sales growth compared to the previous fiscal year, reflecting strong growth in the Australia's Own and MilkLab range and also the Blue Diamond Almond Breeze brand in retail and food service channels.

The trend towards plant-based food and beverages is 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 Group 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.

Consistent with its strategy to be a leading innovator in plant-based beverages, during the second half of FY 2018 the Group successfully launched the first pea protein milk in Australia, "Like Milk", as well as 99% sugar free flavoured almond milks in 1 litre plastic bottle formats.

The Group continued to experience strong growth in the high margin food service channel with both MilkLab and Almond Breeze Barista having established a clear market leadership in the almond segment of the milk for coffee market.

Increased channel penetration and consumer demand is expected to continue to drive growth, with the Group expanding the range of nut based beverage products under the MilkLab brand.

During the period, the Group 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. MilkLab has secured ranging in key coffee chains including Starbucks in Malaysia.

The MilkLab brand is experiencing strong demand across existing markets in Australia and new markets into SE Asia and the Middle East and has the potential to be a leading global plant-based beverage brand in the milk for coffee markets.

Australia's Own liquid stocks increased sales and distribution during FY 2018. The business is also a significant supplier of liquid stocks to retailers and other brand owners.

New world class UHT facility at Ingleburn, South West Sydney

One of Australia's leading investors in UHT technology and capacity in Australia

During the first half of FY 2018, the Group relocated its 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 in December 2017.

The first stage installed UHT filling capacity at Ingleburn of approximately 80 million litres per annum compared to capacity at Taren Point at closure of approximately 50 million litres per annum. To provide for increased demand in both plant-based and dairy categories, the Group is installing additional filling capacity at Ingleburn, including fillers upgraded from the Taren Point site. During the second half of FY 2018, the Group installed 2 litre format capability for both dairy and plant-based applications and will install additional 1 litre format capability by December 2018. Capabilities for yoghurt processing will be completed by September 2018. Expanded filling capacity as at March 2019 is expected to be approximately 170 million litres per annum.

In addition, a state-of-the-art PET plastic bottle capability for both long life (UHT) and short shelf life (ESL) formats will be installed during 2019.

The Ingleburn facility has been established with the capability to process dairy products. During the second half of FY 2018, the Ingleburn site processed dairy formats to provide additional dairy packaging capability ahead of upgrades at the Shepparton facility.

Ongoing, Ingleburn will process dairy primarily for high value-added products including yoghurt and PET bottle based formats.

The site is in the process of obtaining Chinese government export registration to facilitate the export of dairy products to China and has export accreditation for all other export markets.

Dairy Beverage Business Group

During the period, the Group established itself as the largest supplier of UHT dairy products in Australia, following new brand launches and the addition of new customer contracts in Australia and export markets.

Branded Portfolio

Dairy based branded beverage sales continued the upward sales and profit trend from FY 2017, 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

As part of its strategy to build the Australia's Own brand as a leading beverage brand in Australia and key export markets, the Group launched late in FY 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 for sale in Australia and export markets.

The launch was led by Australia's Own branded A2 Protein Milk variants and included, from July 2018, UHT cooking cream in portion and 1 litre formats. The Group intends to launch additional A2 Protein Milk products in 1 Litre and portion pack formats, including yoghurt.

Australia's Own Dairy products were stocked on the shelves of major Australian retailers and are expected to be sold into retail channels in SE Asia and China in FY 2019.

Australia's Own Kids Milk

Largest imported kid's milk brand in China

The Group commenced production of "Australia's Own" branded "Kid's Milk" to support its launch in China in February 2015 under a long-term brand licensing arrangement with our Chinese partner, Shenzhen JiaLiLe Food Co. Ltd (JLL).

With significant ongoing marketing investment including point of sale promotion, sampling and sponsorship of leading China (CCTV) national children's TV programmes, the product has continued its strong growth trajectory, with the product now the largest imported kid's milk brand in China.

The brand is well established in key cities and provinces in China including Hunan, Hubei, Zhejiang, Jiangsu and Guangdong. The business continues to build distribution and expand into provinces in Northern China.

During FY 2018, the Group installed high speed 200ml capacity at its Shepparton operation to provide for volume demand forecast in excess of 60 million packs in calendar year 2018. Additional capacity will be available at Ingleburn into 2019.

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

The AO Kid's Milk product is utilising milk sourced from the Group's Australian Fresh Milk Holdings (AFMH) Moxey Farms operation.

Australia's Own Dairy Company China

In May 2018, the Group completed its investment into JLL, to be operated as AO China.

The Group subscribed for an initial 10% investment in AO China for a consideration of RMB22 million (AUD$4.7 million). It retains an option to subscribe for up to an additional 20% of AO China within 3 years from the date of the initial subscription.

The new structure is the first major overseas investment for the Group into an existing Group, providing a stronger strategic link between the existing local managed brand operations in China (sales, marketing, and distribution) and brand production in Australia (R&D, sourcing, processing, and manufacturing). The structure follows similar models established for successful cooperation between Chinese operations and Western companies.

The AO China business has continued to grow strongly since its inception, with sales in calendar 2018 estimated to be upwards of RMB300 million (AUD$60 million). The business has invested significantly in sales and marketing and is expected to be at a break-even profit at the end of calendar year 2018.

AO China will continue to grow Australia's Own branded Kid's Milk products in China, as well as launching other dairy products later in 2018, including a value-added A2 Protein Milk product.

The Group and AO China will work together to utilise sales and merchandising resources to cross-promote their product portfolios, including utilising common distributor relationships in key cities and provinces. As part of this, a jointly operated Tmall flagship store will be established to sell Australia's Own branded dairy including A2 Protein Milk variants and infant formula branded products.

Although the Group holds less than 20% of the equity shares of AO China, the Group exercises significant influence by virtue of its available call option to increase its potential voting rights to 30%. As a result, the Group will recognise in future years its equity share of profit or loss contribution at the current 10% shareholding level.

So Natural and Vitalife

Fastest growing dairy brands in online and offline channels in China

The Group continues to distribute the So Natural and Vitalife brands in the China market. 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 Group supplies a number of long term retail customers that provide a strong base of underlying volume and earnings support.

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

During the second half of FY 2018, volume throughput at the Shepparton site increased substantially as additional retail, other contract customers and Group branded product supply commenced. Additional volumes will commence during the first half of FY 2019, reflecting demand in Australia, SE Asia and China.

Total dairy milk volume processed for FY 2019 is currently estimated in excess of 250 million litres, a significant increase from volume processed of approximately 140 million litres in FY 2018 and 80 million litres in FY 2017. Sales of dairy based components including cream and milk protein concentrate will also increase.

New Capacity

Largest investor in UHT dairy technology and capacity in Australia

The Shepparton UHT operations continue to be well placed to benefit from the significant changes occurring in the production structure of the Australian dairy market and the increasing demand from export markets in SE Asia, China and the Middle East.

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

As announced in May 2018, the Group is progressing with a significant capacity upgrade to its Shepparton dairy facility, with a total investment of approximately **$33** million (was 29m in May statement). The upgrade of its dairy processing capabilities at Shepparton will increase total dairy milk processing capacity to 500 million litres per annum, up from the current processing capability of approximately 300 million litres per annum.

This significant increase in processing capacity will align and support growth in UHT filling capability at Shepparton to meet demand in domestic and export markets including SE Asia, China and the Middle East. The expanded processing capability will provide flexibility to further increase UHT filling capacity as market demand increases.

Importantly, the expanded processing capability will provide increased flexibility to meet increasing demand for other value-added products streams including functional and medical grade dairy-based beverages, drinking yoghurt and cream (packaged pouring and whipping cream) based on standardised milk formats, to be packaged at Shepparton and Ingleburn.

The planned capital expenditure will include upgrades to site services, raw milk storage, standardising and processing equipment installations. The Group expects the total 500 million litres of processing capability to be fully on stream from July 2019, with increased processing capability available in stages over the next 11 months.

The ability to process increased dairy milk flows, and separate various dairy components, will provide important component streams for the Group's specialised nutritionals platform.

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 Group Pty Limited (**LPC**), New Hope Dairy Holdings Co Ltd and the Moxey family. The Group equity accounted 10% of the net profit of AFMH in the period.

AFMH is currently completing an expansion project at Moxey Farms that began two years ago, allowing carrying capacity to increase from 3,500 to 8,000 milking cows. Milk production has increased from 50 million to 83 million litres and, following completion of the last stage of this project, is expected to increase to 110 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 Group intends to utilise a growing proportion of this expanded and new output from Moxey Farms for its Australia's Own Kid's Milk and other dairy product formats.

During the year, the Group invested an additional $4.4 million in equity in AFMH as part of the shareholders contribution to the expansion plans.

The total investment in AFMH at 30th June 2018 was $12.4 million.

Direct dairy milk supply

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

The first direct supply farm commenced supply in August 2017. By August 2018, the Group had more than 40 direct suppliers supplying in excess of 150 million litres per annum. The direct supply strategy seeks to align a multi-year volume, quality and pricing relationship that supports the growth demands of the Group and provides our farmer partners with certainty and a stable revenue basis to invest in their farms.

The Group intends to expand this direct supply strategy to provide for growing milk demand.

The Group is establishing a number of these direct supply farms relationships as A2 protein milk designated suppliers, providing A2 protein milk volume for increasing demand in Australia and export markets, including value added capabilities in cream, yoghurt and nutritional products.

Nutritionals Business Group

The Group is leveraging its significant and growing dairy capabilities to build a branded high margin product portfolio in specialty nutritional products with the potential for a material contribution to sales and earnings from FY 2020.

As part of this, the Group is well progressed on the construction of the first stage of a specialised nutritionals platform aligned to the dairy UHT operations at Shepparton, that will provide for protein standardisation and the ability to manufacture high grade protein components for use in our branded products and for sale to key strategic customers.

The new product and revenue streams will be derived from a milk input already accounted for in the UHT operations.

With a significant opportunity for sales and earnings contribution from this new area of business, the Group is investing in dedicated capabilities including sales, marketing, product development and technical resources.

The first stage protein fractionation and drying capability will be commissioned later in calendar year 2018, with a potential for a material contribution to sales and earnings in FY 2020.

The ability to add value to our existing nutrition brands and expand further across the nutritional products spectrum is a key part of the Group's strategy.

Performance Nutrition Brands

Following acquisition in May 2017, the Group 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 Group manufactures all its protein powders at its own blending and packing facility in Marrickville, Sydney.

The Vital Strength business activities provide the Group with a strong base 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 Group's dairy nutritional capabilities.

During the year, the Vital Strength brand increased sales in all key customers and channels. The Group also successfully launched a range of snacks and beverages to complement the existing Vital Strength range of protein powers and supplements. The products are performing well and are expected to gain increased ranging and distribution during calendar year 2018. While contributing to sales, these new products in bar and beverage formats had a lower contribution margin compared to powders, reflecting current sourcing arrangements with contract manufacturers. The Group expects the new products will be manufactured internally during calendar year 2019.

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.

Crankt Protein Brand

In February 2018, the Group entered into an exclusive distribution agreement for the Crankt Protein brand for a minimum period of three years, with rights to acquire the brand based on sales performance. Following discussions with the brand owner and based on growth in sales since commencement of the distribution arrangement, the Group announced in August this year that it decided to bring forward the acquisition of the brand.

The Crankt Protein brand markets a range of mainstream nutrition products, including beverages and snack bars. The Crankt Protein range is sold through petrol and convenience, fitness retailers and retail grocery in Australia and New Zealand.

The Crankt brand provides for an everyday mainstream consumer proposition, aligned to the Freedom Foods Vital Strength brand which is positioned as a premium brand in the sports and nutrition category.

The Crankt brand has strong distribution into petrol and convenience chains which provides an opportunity for Freedom Foods to leverage distribution of its expanding product range into this growing channel. In FY 2018, petrol and convenience channels in Australia accounted for 50% of total Crankt brand sales.

Importantly, the Crankt brand provides a unique vertical integration opportunity to the Group's expanding packaging capabilities in beverage and bar formats and sourcing of protein ingredients from internal dairy nutritional capabilities coming online at Shepparton in early 2019.

The acquisition consideration was a gross value of $3.6 million. After deductions for working capital loans and other offsets, the net cash consideration payable was $2.4 million. The gross purchase value of $3.5 million is estimated to equate to a price to gross sales multiple of 0.5x on FY 2019 forecast sales.

Infant Nutrition

The Group launched in July 2018 a new range of early stage nutrition products in Australia and within its existing distribution base in SE Asia.

Australia's Own Diamond pro+ Premium Infant Formula, Follow-On Formula and Toddler Milk Drink have been formulated based on the latest nutritional and scientific evidence within early stage nutrition.

The range includes a unique combination of both probiotics and prebiotics – the good bacteria in the gut and the food they need to thrive – as well as a wide range of vitamins, minerals and other nutrients.

Australia's Own Diamond pro+ Premium range (Stage 1, 2 and 3) was launched exclusively in Coles Supermarkets across all stores nationwide from August 2018.

Based on early sales data, the Australia's Own Diamond pro+ Premium range is achieving higher sales rates over comparable new entrants in the last 24 months.

In Singapore, Australia's Own "Diamond" Infant Formula was launched exclusively with the largest supermarket chain in Singapore, FairPrice, in June 2017. Strong support for the launch from FairPrice and the Singapore government has seen a strong consumer response, with repeated orders over the past 12 months. The new Australia's Own Diamond pro+ range (Stage 1, 2 and 3) will be distributed into Singapore, with registrations underway for new markets in SE Asia expected to provide increased distribution opportunities.

The Group is working with AO China to formulate launch plans for China over the next 12 months.

Blending and Packing Capabilities

Aligned to the Group's investment in value added protein capabilities, the Group will commence construction in early 2019 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 Group 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 the sale of infant and other products to China.

With these capabilities established, the Group's site at Shepparton would comprise a 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.

Messy Monkeys is the No 1 selling "new" brand in the health food section of supermarkets and is expanding through popcorn and extruded snacks variants. Expanded distribution across general merchandise stores is expected in the first half of FY 2019.

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 Woolworths 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.

In June 2018, the Group launched an expanded range of Freedom Foods branded cereals and snacks in the mainstream retail channels in Coles Supermarkets under the brands Heritage Mill and Brekky Heroes. These brands provide a range of great tasting "better for you" oat based cereals and snacks. Since introduction, the products have performed well and above Group expectations. The Group expects the range of products and formats to be expanded into FY 2019.

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 remains one of the top three oat cereals on Tmall International. In offline distribution, the Arnolds Farm brand is now sold in more than 4,000 outlets across China.

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 Group believes its sourcing and conversion capabilities uniquely position it to build a significant branded business in high quality imported oat based cereal and snacks.

The Group has increased its investment in building direct sales representation to expand distribution of its key brands including Arnold's Farm in traditional offline distribution channels in key tier 1 and tier 2 cities. Since December 2017, the Group has built its direct sales team in China to 50 personnel from 12 as at June 2017.

North America

Emerging specialty food and beverage capability in the USA

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

The Group's 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. Via this entity, AFT Holdings acquired a 25% equity ownership of the Group's North American operations. The Group holds the remaining 75% equity ownership with rights to acquire AFT Holdings's interest over a 3 to 5 year period.

The Group 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, the Group will expand the offering of the Group's branded products, going beyond the traditional allergen free base, and leveraging its unique global position in healthy cereals and snacks.

As part of this strategy, the Group 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 Trader Joe's, ranging a number of cereal products from March 2018. The Group also intends to launch its Messy Monkey range over the next 12 months.

Freedom Farmers

Building a fully 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 Group.

As part of ensuring best quality and growth in supply of key grains to the Group's cereal and snack production facilities, the business expanded its Freedom Farmers grains supply platform, with a number of key farmer groups engaged to build the Group's specialised grains supply platform over the coming years that will guarantee our strategy of being a high quality integrated paddock to plate provider.

The Group has sufficient supply of key grain raw materials for the balance of FY 2019. The Group continues to monitor any potential impact on supply for FY 2020 from current dry growing conditions in NSW and parts of Victoria.

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.

As a result of this growth, the Group has also been successful in securing re-ranging of the Paramount Salmon brand in Coles Supermarkets from the second half of FY 2019.

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, which adversely impacted net contribution during the year.

The business remains focused on positioning for growth in calendar year 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 Group 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 Group will utilize the Freedom Foods North America structure to set up a direct procurement capability for all seafood sourcing.

Health Care Practitioner Network

To support the Group's expanding nutritional product capabilities, it has continued to invest in a health care practitioner education program, led by Dr Sonja Kukuljan PhD, Group Nutrition Manager. The strategy includes promoting strong scientific credentials behind the Group'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. This capability is being leveraged for key products including Australia's Own infant formula range, Barley+, Messy Monkeys and other key nutritional products in the future.

Innovation Capabilities

The Group will continue to be a leading innovator in its chosen product and channel segments.

As part of this, the Group continues to invest significantly in its innovation capabilities across its business groups, including the 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 70 products were launched from August 2017. Approximately 40 new branded products will be launched across the business groups from October 2018. Further innovation is being developed for Australia, China and SE Asian markets.

Capital Expenditure

The Group has substantially completed a capital expenditure program of $370 million over the last three years. This has included construction of two greenfields sites at Shepparton (nutritionals) and Ingleburn and incremental development of our two other sites at Leeton and Dandenong as well as investment in supporting technology platforms.

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

The expenditure in FY 2018 is expected to be the high point in a major program expected to be largely completed by the end of FY 2019. Ongoing operational capital expenditure through FY 2019 will relate to new capability and/or product format expansion within our key operating sites at Ingleburn and Shepparton. The Group will continue to build on these sites as our primary operating platforms for the future, providing operating efficiencies through maximising common overhead and expense base.

Corporate and Group Management

Talent and Technology

The Group continued to make investments in people and capability to ensure the Group 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 Group.

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

During FY 2018, the Group 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 Group held cash of $98.1 million at 30th June 2018, with total borrowings of $134.2 million, comprising term facilities, equipment finance leases and working capital facilities. Net debt at 30th June 2018 was $36.1 million, with a net debt to equity ratio of 6.8%.

Cash generated from operations was $37.0 million, an increase of $26.2 million from the prior year period. Cash receipts included the impact of changes to the working capital financing structure of the Group at December.

As outlined at December 2017, the Group 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. The Company invested in working capital for new product launches in the fourth quarter of FY 2018.

During the period, the Group invested $129.4 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 and Leeton, technology platform development, and deposits for committed capital expenditure relating to expanded capital projects committed to in the second half of FY 2018.

In December 2017, the Group 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 Group's Ingleburn land and buildings for a net consideration of $74.9 million, the transaction was completed contemporaneously with the Group entering into a new three 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 Group will pay a partially franked final dividend of 2.75 cents per ordinary share in November 2018, an increase of $0.50 cents per share from the final dividend per ordinary share paid in November 2017.

The Group intends to pay only a 50% franked dividend for any dividends relating to FY 2018 and FY 2019. This results from the Group forecasting reduced tax payments as it utilises tax losses from acquisitions and accelerated tax depreciation benefits from current investment phase. The Group anticipates a return to paying fully franked dividends from increased profits from FY 2020.

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

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

The Group will pay a partially franked final convertible redeemable preference share dividend in accordance with the terms of the convertible redeemable preference shares. The record date for determining entitlements is 5th November 2018 and the payment date is 30th November 2018.

There are 101,627 converting preference shares remaining on issue at 30th June 2018.

Group Outlook

Building a global food and beverage business based in Australia

The Group is increasingly well positioned to strategically 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 Australia's Own and Freedom Foods will be at the forefront of driving our returns from our innovation and manufacturing capabilities in Australia and international markets.

The Group 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 to 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 $350 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 is delivering improvements and will contribute materially to increases 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 Group, 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 and snacks 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 in July 2018, based on the current portfolio, product range and new contracts for key customers coming on stream in the first half of FY 2019, the Group expects net sales revenue in FY 2019 to be in the range of $500 million to $530 million.

The Group continues to experience strong demand across its business activities in Australia, China and SE Asia. This growing demand in dairy, plant-based beverage, cereal and snacks reflects the positive impacts on the Group of structural change in the Australian dairy industry, demand from customers for the products produced via the Group's expanded operational footprint and increasing brand penetration providing for increased market share in key channels and categories in Australia, SE Asia and China.

Major capital expenditure projects including the upgrade to the Shepparton UHT operation, nutritionals, yoghurt and UHT bottle capabilities are generally on plan.

New product revenue streams from these major capital expenditure projects are expected to materially positively impact sales and earnings into FY 2020 and beyond.

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FNP Forward Looking Statement

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