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28th February 2019

Freedom Foods Group Limited (ASX: FNP)
Half Year 2019 Financial Results

Freedom Foods Group Limited (**FNP** or the **Group**) has today released the Group's half year results for the 6 month period ending 31st December 2018

Key Highlights

- Net Sales increased 31.0% to $209.0 million.
- Gross Margin rose $14.5 million to $51.7 million, with margins increasing to 24.7% from 23.3%.
- Operating EBDITA gained 31.2% to $21.0 million. EBDITA margins for the period remained steady at 10% as the Group progresses through a major upgrade of equipment and processes.
- Operating net profit increased 27.6% to $6.4 million, statutory net profit rose 26.4% to $3.7 million.
- Interim dividend steady at 2.25 cents per share.
- Well progressed in building a scale UHT beverage capability in Dairy and Plant integrated with a value-added product portfolio in high margin Dairy Nutritionals.
- Continued transformation now driving growth through iconic brands including Australia's Own and Freedom Foods in retail and food service channels in key markets of Australia, SE Asia and China:
    - Strong growth in key brands including MilkLab and Almond Breeze Barista in the food service beverage category and Messy Monkeys in the snacks category
    - Ongoing success with new brands introduced late in FY 2018 in the retail grocery channel, including Australia's Own into the UHT dairy category and Heritage Mill in the mainstream cereal and snacks category
    - Successful launch of more than 10 new product formats into retail grocery, food service and export markets, supported by increased marketing expenditure. A further 60 new product launches are planned in 2nd half FY 2019.
    - Net Sales from Group brands increased to 55% ($115 million) of total sales from 53% in 1st half FY 2018.
    - Growth achieved in all key branded 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
- The Group is one of Australia's leading investors in state-of-the-art food and beverage manufacturing capability, investing more than $80 million in plant and equipment in the 1st half period:
    - At Shepparton, the Group progressed a significant proportion of an upgrade to increase total processing capacity to 500 million litres per annum from current processing capacity of 250 million litres.
    - During January 2019, the Group commissioned its first stage UHT upgrade, with commercial production commenced in February 2019.
    - Completion of construction of a transformational Nutritionals capability.
    - With commissioning works completed, the site has commenced manufacturing Nutritional ingredients consisting of Micellar Casein (MCC), with liquid and powder formats being supplied to initial customers. The Company is already receiving strong customer demand including from local and global markets for each of the key ingredient formats.
- The 1st half sales and earnings results did not materially benefit from the key capital expenditure initiatives undertaken since March 2018. The Group expects these capital expenditure initiatives aligned with increasing demand to further grow sales and earnings into 2nd half FY 2019 and beyond.

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.”

“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 for the products from the Group’s expanded operational footprint and increasing brand penetration and market share in key channels and categories in Australia, SE Asia and China.”

Based on the current portfolio, product range and new key customers coming on stream, and taking into account the short-term impact of a reduction in major contract manufacturing arrangements as outlined below, the Group expects net sales revenue in FY 2019 to be in the lower end of the range of $500 million - $530 million advised in July 2018, a substantial increase on FY 2018 sales revenue of $353 million.

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

Financial Summary

The Group delivered an improved financial performance with higher sales revenue and earnings. Further investment in innovation, brand and market development assisted in growth in key business divisions and markets.

The Group recorded Net Sales Revenue of $209.0 million, an increase of 31.0% on the previous corresponding period.

Gross Margin increased $14.5 million to $51.7 million, with margins increasing to 24.7% from 23.3%.

Operating EBDITA rose 31.2% to $21.0 million.

The result reflected increased sales and earnings contributions from Dairy Beverage, Nutritionals and Plant Beverage business units, offset by reductions in Cereals & Snacks and Specialty Seafood.

The Group achieved an operating net profit before tax of $8.9 million, a gain of 17.1%, reflecting increased operating EBDITA, offset by higher depreciation costs as compared to the previous corresponding period.

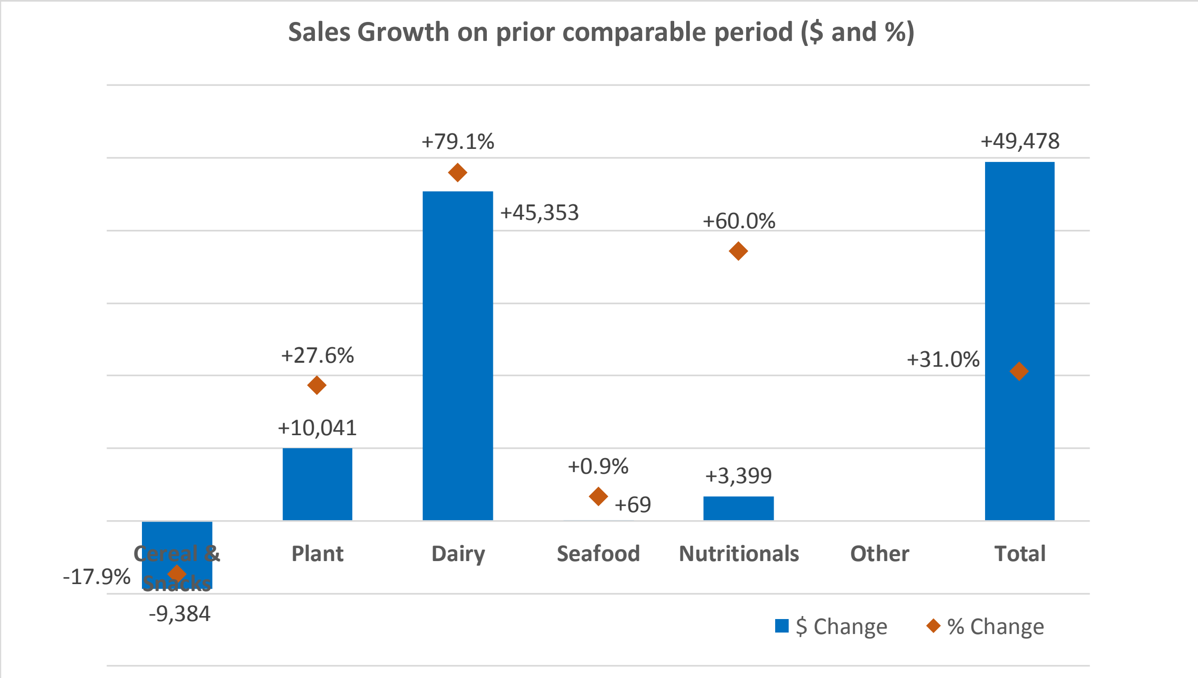
Statutory net profit after tax increased 26.4% to $3.7 million. This included unrealised foreign exchange losses and one off non-operating costs of $1.2 million relating to the write down of inventory and discontinued product formats due to changes in the Shepparton and Leeton operational footprints and the decision to exit a number of major contract manufacturing arrangements for key brand and private label customers in cereals and milling related activities.

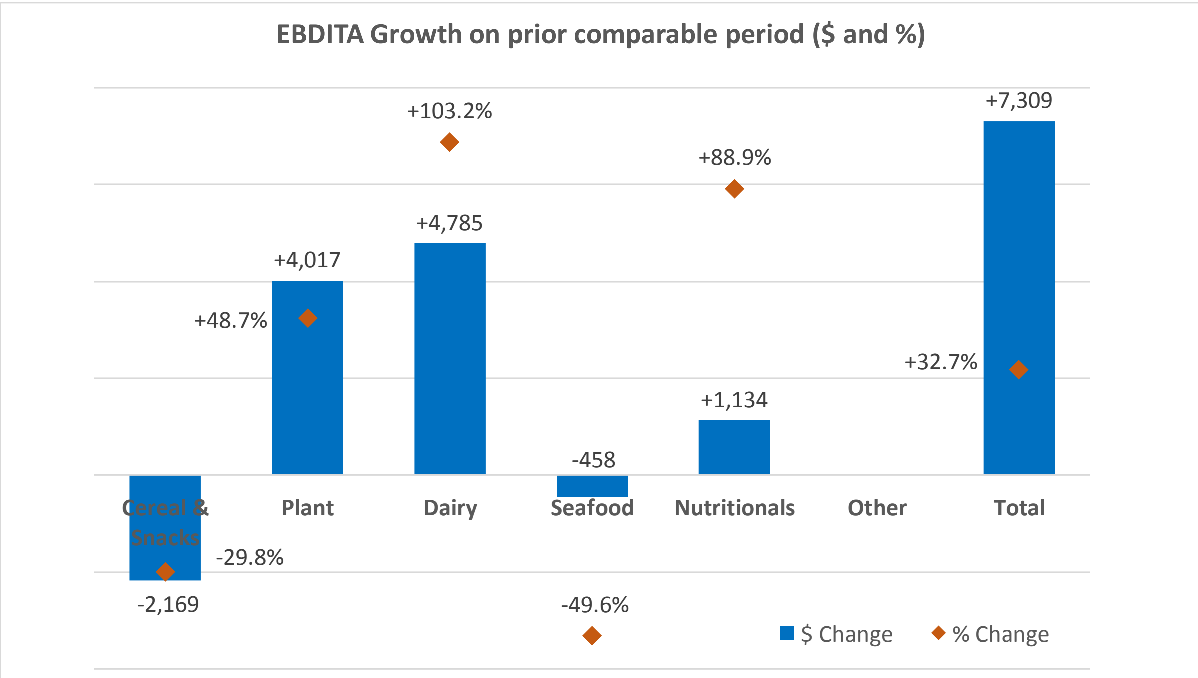
The income tax expense reflects an operating tax rate of approximately 28%. The Group expects the future tax rate to be broadly in line with the Australian corporate tax rate.

A summary of the key business unit financial performance is outlined below:

- Dairy operations at Shepparton achieved significant sales growth, reflecting increasing demand in Australia, China and SE Asia. Total earnings contribution improved through increased sales and factory utilisation during the period.
- Nutritionals contribution reflected increased sales of Vital Strength powder based branded products and Crankt branded beverage and bar formats.
- Plant-Based Beverage operations delivered increased sales, reflecting growth in retail and food service brands, with operating earnings contribution materially ahead of the prior year period. The result reflected increased margins in food service and improved operating cost at Ingleburn compared to the Taren Point operation.
- The Cereal and Snacks operations delivered increased sales in key branded products in cereals and snacks. Overall sales and earnings contribution were below the prior comparable period, reflecting the impact of:
    - a decision to exit a number of major contract manufacturing arrangements for key brand and private label customers in cereals and milling related activities. A number of these contract manufacturing arrangements in cereals and milling were below the Group's margin criteria and utilised manufacturing capacity that can be better deployed for growth in the Group's brands in key channels and markets. In the short term there will be some negative capacity utilisation implications but it is anticipated that capacity will be re-absorbed via increased cereals and bar production over the next 12 months.
    - The Group increased investment in significant trade spend activity in the 1st quarter associated with the Messy Monkeys brand. The brand continues to experience strong sales growth in supermarkets and is expanding through popcorn and extruded snacks variants.
- Specialty Seafood sales were in line with the previous comparable period. Earnings contribution was impacted by unfavourable cost of goods reflecting exchange rate ($AUD depreciation) and increased cost of $USD denominated Salmon finished goods reflecting a poor seasonal catch.
- With increasing focus on building the Group's brands, the Group substantially increased investments in brand building and marketing as well as in retail and other channel trade activities.
- Group Services costs increased, primarily reflecting a significant investment in sales capability in Australia (retail, food service), SE Asia and China, quality and finance capability necessary to manage the growth of the Group.

Sales and EBDITA Growth





Underlying vs. Statutory EBDITA

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

6 Months to 31st December (A$ million)	2018	2017	Movement	Movement
Underlying Operating EBDITA (1)	**21.0**	**16.0**	**+5.0**	**+31.2%**
Gain on sale of Ingleburn	**-**	**3.4**	**-3.4**	
Other costs not representing underlying performance (2)	**(2.7)**	**(6.1)**	**+3.4**	
Employee Share Option Expense (non cash) (3)	**(1.0)**	**(0.4)**	**-0.6**	
Statutory EBDITA	**17.3**	**12.9**	**+4.4**	**+34.2%**

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 2019 other costs not representing underlying operating performance includes one-off non-operating costs of $1.2 million, unrealised foreign exchange loss of $824k and bank facility financing fees of $376k.*
3. *Non cash employee share option expense of $1.0 million* in H1 2019.

Segment Financials

6 Months to 31st December 2018 (A$ million)	Cereal & Snacks	Plant	Dairy	Seafood	Nutritional	Other	Total
Net Sales Revenue	**43.1**	**46.3**	**102.7**	**7.8**	**9.1**		**209.0**
Trading EBDITA	**5.1**	**12.3**	**9.4**	**0.5**	**2.4**		**29.7**
Equity Associates (1)						**0.2**	**0.2**
Corporate Costs (2)						**(8.9)**	**(8.9)**
Operating EBDITA	**5.1**	**12.3**	**9.4**	**0.5**	**2.4**	**(8.7)**	**21.0**
Net Sales Change (YOY %)	**-17.9%**	**+27.6%**	**+79.1%**	**+0.9%**	**+60.0%**		**+31.0%**
Net Sales Change (YOY $m)	**(9.4)**	**10.0**	**45.3**	**0.1**	**3.4**		**49.5**

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 $1.0 million.*

Key Financials

6 Months to 31st December	2018	2017	
	$'000	$'000	% Change
Net Sales Revenue	209,041	159,563	+31.0%
EBDITA (Underlying Operating) (1)	21,003	16,008	+31.2%
EBDITA (Statutory)	17,309	12,896	+34.2%
Equity Associates Share of Profit (2)	240	240	-
Pre Tax Profit (Operating)	8,878	7,584	+17.1%
Pre Tax Profit (Reported)	5,184	4,472	+15.9%
Income Tax (Operating)	2,492	2,579	-3.4%
Net Profit (Operating)	6,386	5,005	+27.6%
Net Profit (Reported)	3,729	2,951	+26.4%
Interim Ordinary Dividend (cps)	2.25	2.25	-
Interim CRPS Dividend (cps)	1.35	1.35	-
EPS (cents per share) (Fully Diluted for CRPS)	1.86	1.61	+15.8%
EPS Operating (cents per share) (Fully Diluted)	2.92	2.45	+19.0%
Shareholder Equity	532.3	323.6	+64.5%
Net Debt / Equity	30.8%	42.5%	
Net Assets per Share (cents)	217.4	160.5	+35.4%
Net Tangible Assets per Share (cents)	165.5	108.6	+52.5%

Notes:

1. *H1 2019 other costs not representing underlying performance includes one-off non-operating costs of $1.2 million, unrealised foreign exchange loss of $824k and bank facility financing fee of $376k.*
2. *Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group).*

Dairy Beverage Business Group

Branded Portfolio

Dairy based branded beverage sales continued the upward sales and profit trend from FY 2018, reflecting increased sales of the Australia's Own brand 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, A2 protein, lite and skim milk products in 1 litre and 2 litre formats.

In the Australian domestic retail market, the brand has performed well, and achieved a 12% share of branded UHT milk within six months of launch. Further innovation in specialty dairy milks and pack size formats will be launched during 2019.

The Australia's Own Dairy products will be expanded into key sales channels in SE Asia during calendar 2019 as capacity becomes available through the Shepparton UHT site.

Australia's Own Kids Milk

Largest imported kid's milk brand in China

The "Australia's Own" branded "Kid's Milk" product continued to grow sales and distribution during the period, with the product remaining the largest imported kid's milk brand in China.

The brand continues to be supported with marketing investment including point of sale promotion, sampling and sponsorship of leading China (CCTV) national children's TV programmes. 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 the 1st half, the Group supported the growth of the brand, with increased output in current 200ml packaging format and a new 200ml leaf packaging format for exclusive use in e-commerce channels. An A2 Protein Milk variant was also launched in December 2018.

Australia's Own Dairy Company China (trading as JLL)

The Group subscribed in May 2018 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 three years from the date of the initial subscription.

The AO China business has continued to grow strongly since its inception, with sales in calendar year 2018 in the order of RMB300 million (AUD$60 million). The business has invested significantly in sales and marketing and is expected to be at break-even during calendar 2019.

So Natural and Vitalife

Fastest growing dairy brands in online and offline channels in China

The Group continues to produce in Australia and 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 as well as 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 1st half of FY 2019, volume throughput at the Shepparton site increased as additional retail, other contract customers and Group branded product supply commenced. Additional volumes will commence during calendar 2019, reflecting demand in Australia, SE Asia and China.

Total dairy milk volume processed in 1st half was in excess of 100 million litres compared to 54 million litres in the previous corresponding period. The Group estimates dairy milk volume processed in FY 2019 to be 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 1st half FY 2019, the Group progressed a significant part of the capacity upgrade to its Shepparton dairy facility. The upgrade of its dairy processing capabilities at Shepparton will increase total dairy milk processing capacity to 500 million litres per annum.

This doubling of 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. 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 Company commissioned in January 2019, its first stage UHT upgrade, with commercial production through this additional capacity commencing through February 2019. The increase in UHT capacity is a critical milestone to ensure the Company continues to meet strong demand for UHT dairy supply from Shepparton, with volumes set to increase over the next few years.

The Group expects the total 500 million litres of processing capability to be fully on stream from July 2019.

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 – Australian Fresh Milk Holdings (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.

AFMH is currently completing an expansion project at Moxey Farms that began two years ago, allowing carrying capacity to increase from 3,500 to 7,000 milking cows. Milk production has increased from 50 million to 85 million litres and, following completion of the last stage of this project, is expected to increase to 100 million litres per annum.

In January 2019, AFMH completed the acquisition of the Coomboona Dairy operation in Northern Victoria. The Coomboona Dairy operation will expand AFMH's production platform in a renowned dairy farming region. With the acquisition of the Coomboona Dairy operation, AFMH is now the largest dairy producer in Australia with current operations forecast to produce more than 150 million litres in 2019.

AFMH is a strategic partnership owned by the Moxey and Perich families and other shareholders including Freedom Foods Group. FNP has a 10% equity shareholding in AFMH.

Freedom Foods is now utilising a growing proportion of the dairy milk output from both Moxey Farms and Coomboona Dairy for its Australia's Own Kid's Milk and other dairy product formats.

The total investment in AFMH at 31st December 2018 was $13.9 million.

Direct Dairy Milk Supply and Milk Price Outlook

During the period, 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.

As at 31st December 2018, the Group had more than 45 direct suppliers supplying in excess of 250 million litres per annum. With the existing long term contracted supply of 100 million litres from ACM, total supply is approximately 350 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.

During the half year period, difficult weather conditions and high water and grain based feed pricing saw reductions in the total Australian dairy milk supply. The farm gate cost of milk has increased as a result with the majority of processors increasing farm gate prices into 2nd half of FY 2019.

The Group has already established supply relationships based on multi-year contracts at prices broadly in line with current prices being offered by other processors. As a result, the Group does not expect any material change to its dairy milk pricing for the remainder of FY 2019.

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 advanced in completing the first stage of a specialised nutritionals platform aligned to the dairy UHT operations at Shepparton. The platform will provide for protein standardisation and the ability to manufacture high grade protein components for use in our branded products and for sale to strategic customers. The new product and revenue streams will be derived from a milk input already utilised 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.

During January 2019, the Group received all regulatory approvals to commence commercial operations at its new Nutritionals capability at Shepparton. This represents a significant achievement for the Company, with construction of this complex technology capability only commencing in February 2018.

With commissioning works ongoing through December and January, the site commenced in February 2019 manufacture of the Nutritional ingredient Micellar Casein (MCC), with liquid and powder formats being supplied to initial customers.

Following MCC production, the Company will progress with Native Whey Protein Isolate and Lactoferrin being commercialised through the remainder of FY 2019.

The Company is already receiving strong customer demand including from local and global markets for all of these ingredients.

The Nutritionals capability is expected to deliver a material earnings contribution 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

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 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 half year period, the Vital Strength brand increased sales and profit contribution from key customers and channels.

Crankt Protein Brand

In February 2018, the Group commenced distribution of the Crankt Protein brand, offering 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 targets everyday consumers and is aligned to the Freedom Foods Vital Strength brand which is positioned as a premium brand in the sports and nutrition category.

The Crankt brand performed well in the 1st half, with growing sales in both retail supermarket and petrol and convenience chains.

The Group acquired the Crankt brand in August 2018, following an initial period under a distribution agreement. 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

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, with a unique combination of both probiotics and prebiotics.

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.

The range has continued to increase sales since launch, supported by investment focussed on marketing the unique combination to Australian mothers. At December 2018, 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.

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 both volume and sales revenue growth compared to the previous corresponding period, 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".

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. New oat and pea product formats will be launched in 2019. The Group will also launch 2 litre formats.

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.

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.

UHT facility at Ingleburn, south west Sydney

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

The new state-of-the-art UHT facility at Ingleburn in south west Sydney has performed well since initial start-up and commissioning in December 2017.

The Ingleburn facility has been established with the capability to process both non-dairy and dairy products. During the 1st half, the Ingleburn site processed dairy formats to provide additional dairy packaging capability ahead of upgrades at the Shepparton facility.

Capabilities for yoghurt processing were completed during the latest half year. Initial product formats for domestic and export markets in SE Asia will be launched late in the 2nd half FY 2019. While China's demand for yoghurt is strong, sales are subject to receiving Chinese government accreditation.

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. The Group understands this process has been delayed due to internal changes in the General Administration of Customs of the People's Republic of China – GACC, which is the agency responsible for approval of general dairy products, such as UHT Milk.

A state-of-the-art PET plastic bottle capability for both long life (UHT) and short shelf life (ESL) formats will be installed later in 2019. Ongoing, Ingleburn will process dairy primarily for high value-added products including yoghurt and PET bottle based formats.

Cereal and Snacks Business Group

Building a global leader in healthy cereals and snacks

Australia

Number 1 health food cereal brand and growing

The Freedom Foods business is the category leader in the cereal and snacks segment found in the health food sections of retail supermarkets. Our capacity to expand innovation, product range and formats through our flexible 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.

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

The Messy Monkeys brand continued a strong growth trajectory in the 1st half, supported by strong trade and external marketing activity. The brand is the No 1 selling "new" brand in the health food section of supermarkets and has expanded its core range with popcorn and extruded snacks variants. Expanded distribution across general merchandise stores commenced in January 2019.

The Freedom Foods Arnold's Farm brand performed well in its oat based cereal products through its exclusive distribution in Woolworths supermarkets. The Arnolds Farm range will be expanded significantly during the 2nd half with new cereal and snack formats to be launched.

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 brands have achieved in six months a 20% share of the breakfast cluster and muesli category in Coles Supermarkets. The Heritage Mill range will be expanded significantly during the 2nd half with new cereal and snack formats to be launched.

Exit from Contract Manufacture Arrangements

The Group made a strategic decision during the 1st half to exit a large a number of major contract manufacturing arrangements for key brand and private label customers in cereals and milling related activities.

A number of these contract manufacturing arrangements were below the Company's margin criteria and utilised manufacturing capacity that can be better deployed for growth in the Company's brands including Heritage Mill and Arnolds Farm in key channels and markets.

For competitive reasons, the Group brought forward the full exit of these arrangements from January 2019. The impact of this decision will be a reduction in sales and contribution for the Cereal and Snacks Business for FY 2019 as compared to FY 2018.

The Group is confident that the growth and opportunities provided by a focus on its own brand strategy will provide for increased financial returns in the medium to long term. Strong demand in the Heritage Mill and Arnold's Farm brands and increased demand in China and SE Asia provides a strong foundation for success.

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 Arnold's 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.

Offline Distribution – Strategic Partnership with Theland

In November 2018, the Group advised that it had entered into an arrangement to establish a strategic partnership with Theland New Cloud Digimart Co (Theland) for the development of the Arnold's Farm range of cereals and snacks in China.

Majority owned by Alibaba Group, Theland is a China-based brand owner and distributor with extensive sales capabilities across both online and offline channels in more than 25 provinces in China. Its strategic relationship with Alibaba provides for deeper customer focused integration into online channels and for accelerated distribution into Alibaba's offline "new retail" strategy.

Theland's product range includes meat, dairy, water, cereals and supplements.

Under the arrangements, Theland will become the exclusive distributor for Arnold's Farm branded cereal and snacking products in the China market including online and offline channels, further leveraging the integration between online and the "new retail" strategy being developed by Alibaba.

The partnership with Theland provides a unique platform to combine complementary capabilities between brand owners and manufacturers like Freedom Foods with a unique scaled sales, marketing and distribution business across China. China is a large market and this partnership provides for fast tracking growth and establishing a long term leadership position in this growing product category.

The strategic partnership arrangements for Arnold's Farm will formally commence in March 2019. The Group has also commenced supply of an A2 protein milk product in UHT format to Theland, under its own brand.

Freedom Foods and Theland expect to build on this initial UHT milk product launch with additional products and formats to be launched into 2019.

As part of the new arrangements with Theland, the Group will reduce its footprint in its direct sales representation to focus on showcasing new products and capabilities across key Tier 1 Cities, leveraging its partnerships with Theland and AO China.

Freedom Farmers

Building a fully 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 latest six months, with the re-ranging of the Paramount Salmon brand in Coles Supermarkets from later in the 1st half.

While Specialty Seafood sales were in line with the previous comparable period, the earnings contribution was impacted by unfavourable cost of goods reflecting exchange rate ($AUD depreciation) and increased cost of $USD denominated Salmon finished goods due to a poor seasonal catch. These factors will result in a reduction in earnings contribution for the Specialty Seafood Business for FY 2019 as compared to FY 2018.

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. In the last five years, the Group has invested in excess of $40 million in brand and product development.

A total of 10 new products were launched from August 2018 into retail grocery, food service and export markets, supported by increased marketing expenditure. Approximately 60 new branded products will be launched across the business groups in 2nd half FY 2019.

Capital Expenditure

The Group is one of Australia's leading investors in state-of-the-art food and beverage manufacturing capability, investing more than $80 million in plant and equipment in the 1st half. The key programs implemented during this 1st half included:

- At Shepparton, the Company completed a significant proportion of an upgrade to increase total processing capacity to 500 million litres per annum from current processing capacity of 250 million litres. During January 2019, the Company commissioned its first stage UHT upgrade, with commercial production commenced in February 2019.
- Completion of construction of a transformational Nutritionals capability. With commissioning works completed, the site has commenced manufacturing the Nutritional ingredients Micellar Casein (MCC), with liquid and powder formats being supplied to initial customers.
- Completion of yoghurt processing capabilities during the half year. Initial product formats for domestic and export markets in SE Asia will be launched in 2nd half FY 2019.

The capital expenditure program provides a strong operational platform to significantly increase the Group's sales and operating financial returns. Ongoing operational capital expenditure through FY 2019 will relate to completion of key upgrades at Shepparton for UHT and installation of Lactoferrin capabilities. The Group will continue to build on the Shepparton, Ingleburn and Leeton 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 and quality.

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 third party providers. All our major installations, including the Shepparton 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 the 1st half, the Group further progressed the transformation of its IT / ERP systems. Further investments in technology will be made to ensure we increase efficiency and productivity.

Greater China Management Team

During the 1st half, the Group recruited a new senior leadership team for its Greater China business the reflect the increasing scale and sophistication of the business and the need for strong business management and administration capabilities. Jason Zhang has assumed the role of CEO Greater China and Roy Hu, General Manager Sales. Both have strong experience and skills sets in FMCG including working across Western and local companies in the China market.

Capital Management

Liquidity and Finance Facilities

The Group held cash of $9.7 million at 31st December 2018, with total borrowings of $173.7 million, comprising term facilities, equipment finance leases and working capital facilities. Net debt at 31st December 2018 was $164.0 million, with a net debt to equity ratio of 30.8%.

Cash generated from operations included a significant increase in working capital during the period of -$33.0 million. The working capital investment reflected a number of factors including impact of the significant increase in dairy milk purchases as a result of increased dairy demand, higher trade investment for key brands in the 1st quarter period and investment in raw materials and packaging for increased demand into 2nd half FY 2019. The Group expects a positive operating cashflow for the full year.

During the period, the Group invested $84.1 million in capital expenditure relating to the balance of construction and equipment payments, commissioning and related costs for the capital expenditure on plant and equipment at Shepparton, Ingleburn and Leeton, technology platform development, and deposits for capital expenditure relating to expanded capital projects committed to in the second half of FY 2019.

Dividends

Consistent with the positive outlook, the Group will pay a partially franked interim dividend of 2.25 cents per ordinary share on 1st May 2019.

The Group intends to pay only a 50% franked dividend for any dividends relating to FY 2019, reflecting likely reduced tax payments as the Group utilises tax losses from acquisitions and accelerated tax depreciation benefits from the current investment phase. The Group anticipates a return to paying fully franked dividends from increased profits after FY 2021.

The record date for determining entitlements is 3rd April 2019 and the payment date is 1st May 2019.

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 3rd April 2019 and the payment date is 1st May 2019.

There are 101,627 converting preference shares remaining on issue at 31st December 2018.

Group Outlook

Building a global food and beverage business based in Australia

The Group is strategically increasingly 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 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 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 substantial capital expenditure programme and will continue to invest to enhance these outcomes.

The growth in sales and improving financial returns in our Plant beverage business reflects the investment in new capabilities at the Ingleburn site in Sydney. This site is expected to continue to deliver improvements and will further contribute materially to increases in sales and profitability over the medium term as we focus on driving our brands in Australia and into SE Asia and China.

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 newly created 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 strategic customers. Our performance nutrition brands 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 are strategically well positioned to build a significant growth platform in multiple products, channels and distribution across Australia/NZ, China and SE Asia. The decision to exit a large a number of major contract manufacturing arrangements for key brand and private label customers in cereals and milling related activities will release capacity and capability for our own brand strategy and provide for increased financial returns in the medium to long term.

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.

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 in the Australian dairy industry, demand for products from 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.

Based on the current portfolio, product range and new key customers coming on stream, adjusted for the short term impact of the reduction in major contract manufacturing arrangements as outlined, the Group expects net sales revenue in FY 2019 to be in the lower end of the range of $500 million - $530 million, a substantial increase on FY 2018.

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

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