freedom FOODS GROUP LIMITED
Making food better

# ANNUAL REPORT 2016


# MAKING FOOD BETTER

## ANNUAL GENERAL MEETING

**date** 24 November 2016 **time** 12:00 Noon

**location** DLA Piper Australia Level 22, 1 Martin Place Sydney NSW 2000

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# Chairman's letter

Dear Shareholders

I am very pleased to report another successful year in building our Company's unique positions in key food and beverage platforms in Australia, China, SE Asia and North America.

During the year, a number of significant initiatives were undertaken across our business activities, with the highlights including:

- Purchase of the Darlington Point Mill and Popina Foods which have accelerated our Cereal and Snacks business and provided value added scale benefits;
- An increase in the Company's shareholding in the Shepparton UHT dairy operations to 50%, resulting in the consolidation of the Pactum Dairy Group (PDG) from January 2016. During the second half of FY 2016, PDG's revenue contribution was $37 million;
- Commencement of the construction of a new UHT processing facility at Ingleburn in Sydney, to drive material ongoing earnings benefits from FY 2018;
- Australian Fresh Milk Holdings (AFMH) acquired Moxey Farms in July 2015, Australia's largest single site dairy operation. The Company is a 10% shareholder in AFMH and this acquisition in the Lachlan Valley (NSW) is an important part of our future dairy milk supply chain;
- Acceleration of growth in sales of Australia's Own Kid's Milk in China in partnership with Shenzhen JLL, with the brand now the leading imported Kid's Milk brand in China; and

Successful capital raising initiatives were also completed during the year including:

› An entitlements issue and placement in November 2015 to existing and new shareholders raising $65 million; and

› The sale of the Company's investment in The a2 Milk Company (a2MC) to provide for reinvestment into core operating businesses, generating cash of $90 million and a net profit of $25 million. Total net profit over the life of the investment from the realisation of our investment in a2MC has been $85 million.

The Company is developing a unique supply and manufacturing footprint in its key categories. Alongside this we also invested in people, quality and systems.

The Company achieved an underlying Operating EBDITA of $21.5 million, 41% above the Previous Corresponding Period (PCP).

The Reported Net Profit of $50.6 million included acquisition costs of $1.2 million relating to the purchase of the Darlington Point Mill and Popina Foods, a gain of $25 million (pre-tax) from the disposal of an investment of The a2 Milk Company and a fair value gain of $22.4 million on conversion of options in PDG.

The Board has recommended payment of a final fully franked dividend of 2.25 cents per ordinary share in November 2016, taking total dividends for FY 2016 to 4.0 cents per share fully franked.

On behalf of the Board, I would like to thank my fellow directors and all our employees for their dedication and hard work throughout the year.

I retain a great deal of confidence about Freedom Foods Group prospects.

The benefits of the Company's growth strategy, our ability to control manufacturing inputs, and the significant capital investment program all contribute to an outlook of accelerated earnings and returns during FY 2017 and beyond.

I encourage you to read the Managing Director's review of operations, which provides further background on the Company and its prospects.

Perry Gunner
Chairman

# Managing director's review of operations

# Operating highlights

## Category Platforms

Plant Based Beverages
Dairy (Beverages & Nutritionals)
Specialty Cereal & Snacks

## Markets

Australia, China,
South East Asia
North America

## Category Brands

Freedom Foods
Australia's Own

- Freedom Foods Group is well positioned to build scale in key food and beverage platforms with sales and earnings growth over the long term from Australia, China and other key international markets.
- Acquisitions totalling approximately $44.1 million comprising of the purchase of the Darlington Point Mill in September 2015 for $8.5 million and Popina Foods, a recognised leader in cluster format cereal and snacks in Australasia, in December 2015 for $35.6 million.
- A successful year investing in the Company's capabilities to deliver profitable growth consistent with its medium term plan, with net sales growth of 86%, reflecting:
  - Sales growth across all key category platforms in Australia, China and North America;
  - Strong growth in new value added Cereal and Bars, plant based beverages, including branded and non-branded sales in the growing Almond and value added plant milk categories;
  - Acceleration of growth in sales of Australia's Own Kid's Milk in China in partnership with Shenzhen JLL, with the brand now the leading imported Kid's Milk brand in China;

# Operating highlights

    - Sales contribution from Darlington Point Mill and Popina Foods (now Freedom Foods Group Dandenong); and
    - Consolidation of PDG Shepparton operations from 1 January 2016.
- Underlying operating EBDITA of $21.5 million, an increase of 41% on the previous corresponding period, including increased contribution from Cereal and Snacks operations, a part year contribution from the two acquisitions, consolidation of the PDG Shepparton operation from 1 January 2016, offset by a decrease in contribution from Specialty Seafood and marginal decrease in loss in North America.
- Significant progress in our investment in building world class manufacturing capabilities, people, new product development, quality and systems, including construction of a new UHT processing facility at Ingleburn in Sydney, to drive material ongoing earnings benefits over the medium term.
- Consolidation of Dairy operations at Shepparton (Pactum Dairy Group or PDG) from 1 January 2016, reflecting an expected increase in sales and earnings contribution to the Company in the medium term. The Shepparton operations achieved sales for 6 months, since consolidation of $37 million, reflecting new contracts and increasing demand in Australia, China and South East Asia.
- As part of our long term dairy milk supply strategy, the Company became a 10% shareholder in Australian Fresh Milk Holdings consortium (AFMH), with the acquisition of Moxey Farms, Australia's largest single-site dairy operation, in July 2015. The business is profitable and made a contribution to earnings in the full year.
- Successful capital raising initiatives including an entitlements issue and placement in November 2015 to existing and new shareholders raising $65 million, and the sale of the Company's investment in The a2 Milk Company (a2MC) to provide for reinvestment into core operating businesses, generating cash of $90 million and a net profit of $25 million. Total net profit over the last 4 years from the realisation of our investment in a2MC has been over $85 million before tax. At 30 June 2016, the Company had cash on hand of $63.9 million.




MAKING FOOD BETTER

# Financial summary

The statutory net profit of $50.6 million, reflected a pre-tax gain of $25 million, arising from the sale of the investment in a2MC and a fair value gain of $22.4 million on conversion of options in PDG. This profit also reflected one-off costs relating to expensing of transaction costs of $1.2 million relating to the Darlington Point Mill and Popina Foods acquisitions. The Company also expensed non operating amounts relating to costs of incomplete transactions and insurance claims that are not expected to be recovered.

The Company reported an operating net profit of $10.8 million, an increase of 118% from the prior corresponding period.

The Company achieved an underlying Operating EBDITA of $21.5 million, 41% above the previous corresponding period. The underlying Operating EBDITA and statutory result was also impacted by the expensing of an estimated $1.5 million of increased USA and Australian sourced Almond input costs (reflecting adverse market price movements and exchange rate), as compared to the previous corresponding period. While domestic Almond pricing reduced later in the second half, the Company continued to have an exposure to USD purchasing of Almond paste and requirements for Organic Almond flour for which pricing still remains high.

Each of the business units achieved increased sales growth, with the exception of Specialty Seafood, which was impacted by a shortage in Sardines supply in the second half.

The Cereal and Snacks operations delivered an increased operating earnings result, including a contribution from the acquisition of the Darlington Point Mill and Popina Foods businesses consistent with expectations.

Plant Based beverage operations at Taren Point delivered increased sales, with operating contribution slightly ahead of the prior year period. The Taren Point facility is at capacity with increased cost of maintaining operations impacting earnings. The new facility at Ingleburn to replace Taren Point will materially reduce the cost of ongoing operations.

The Dairy operations at Shepparton, which were consolidated for the first time from 1 January 2016, achieved sales growth in second half of FY 2016, reflecting new contracts and increasing demand in Australia, China and South East Asia. The operation reported its first positive operating earnings contribution since commencing in 2014, reflecting increased sales and factory utilisation during the period.

Specialty Seafood's revenue and operating earnings declined, reflecting impact of Sardine shortage and exchange rate impact on cost of goods sold.

# Financial summary

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

| 12 Months to 30 June (A$ Million) | 2016 | 2015 |
|---|---|---|
| Underlying Operating EBDITA before significant items | 23.0 | 16.4 |
| **Significant Items expensed to profit:** | | |
| Market price and exchange rate impact on purchases of Almond inputs | -1.5 | -1.2 |
| Underlying Operating EBDITA (1) | 21.5 | 15.2 |
| Other costs not representing underlying performance costs of incomplete transactions, prior year insurance claims not expected to be recovered (2) | -2.2 | -2.8 |
| Employee Share Option Expense (non cash) | -0.4 | -0.4 |
| Statutory EBDITA (1) (3) | 18.9 | 12.0 |

*Note:*

1. *Operating EBDITA is a non-IFRS measure as contemplated in ASIC Regulatory Guide 230 Disclosing non-IFRS financial information (RG230). Operating EBDITA is used by management and the directors as the primary measures of assessing the financial performance of the Group and individual segments.*
2. *Other costs in FY 2015 comprised once off marketing costs associated with product launch and costs associated with the commissioning of the new nutritional snack equipment reducing manufacturing recoveries and gross margin during the period.*
3. *Statutory EBDITA excludes gains from a2MC and Fair Value as well as Popina Foods and Darlington Point Mill Acquisition Costs.*

| 12 Months to 30 June 2016 (A$ Million) | Freedom Foods | Pactum Taren Point | Pactum Dairy Group[2] | Specialty Seafood | Freedom Foods NA | Other | Total |
|---|---|---|---|---|---|---|---|
| Net Sales Revenue[1] | 86.7 | 56.0 | 36.6 | 12.4 | 1.9 | (23.2) | 170.4 |
| Operating EBDITA | 10.6 | 11.3 | 2.0 | 2.0 | (0.9) | - | 25.0 |
| Investment and Other Income[3] | - | - | 0.2 | - | - | 0.4 | 0.6 |
| Equity Associates[4] | - | - | - | - | - | 0.4 | 0.4 |
| Corporate Costs[5] | - | - | - | - | - | (4.5) | (4.5) |
| Group Operating EBDITA | 10.6 | 11.3 | 2.2 | 2.0 | (0.9) | (3.7) | 21.5 |
| Net Sales Change (YOY %) | +80.0% | +15.2% | NA | -3.1% | +21.0% | - | - |
| Net Sales Change (YOY $ Million) | 38.5 | 7.4 | 36.6 | (0.4) | 0.3 | - | - |
| Operating EBDITA Change (YOY %) | +217.4% | +8.6% | NA | -20.1% | +5.1% | - | - |
| Operating EBDITA Change (YOY $ Million) | 7.3 | 0.9 | 2.0 | (0.5) | 0.05 | - | - |
| Operating EBDITA Margin (%)[6] | 12.3% | 20.2% | 5.5% | 16.3% | NA | - | 14.7% |
| Operating EBDITA Margin Prior Year (%) | 7.0% | 21.4% | NA | 19.8% | NA | - | 16.7% |

*Notes:*

1. *Net Sales Revenue Total is after intercompany elimination of sales (Pactum Taren Point to Freedom Foods $20.6m and Freedom Foods to Pactum Taren Point $2.5m).*
2. *PDG Consolidated contribution was for 6 months from 1st January to 30th June 2016. PDG Operating EBDITA includes impact of consolidation adjustments and may differ from reported entity statutory reporting.*
3. *Investment and Other Income is income from PDG convertible notes up to 31st December 2015 and Group related grant income related to EMDG.*
4. *Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group) and 1% of PDG Equity accounted NPAT for period 1st July 2015 to 31st December 2015.*
5. *Corporate Costs excludes non cash employee share option expense of $448k.*
6. *The reduction in the Operating EBDITA margin percentage in FY 2016 of the 2.0% over the prior year is due to a change in the business combination mix, reflecting the acquisition of Popina Foods and the consolidation of the PDG business from 1 January 2016.*

# Financial summary

| 12 Months to 30 June 2016 | 2016 $'000 | 2015 $'000 | Change % |
|---|---|---|---|
| Net Sales Revenue | 170,444 | 91,460 | 86.4% |
| EBDITA (Underlying Operating before Significant Items) | 23,026 | 16,420 | 40.2% |
| EBDITA (Underlying Operating) | 21,526 | 15,237 | 41.3% |
| EBDITA (Statutory) | 18,926 | 12,086 | 56.6% |
| EBITA (Operating)(1) | 15,087 | 9,092 | 65.9% |
| Equity Associates Share of Profit(2) | 372 | (42) | - |
| Pre Tax Profit (Operating)(3) | 13,691 | 9,240 | 48.2% |
| Pre Tax Profit (Reported) | 57,114 | 61,980 | (7.9%) |
| Income Tax (Operating)(3) | 2,873 | 5,349 | (46.3%) |
| Net Profit (Operating)(3) | 10,818 | 4,970 | 117.7% |
| Net Profit (Reported)(3) | 50,631 | 56,631 | (10.6%) |
| Final Ordinary Dividend (cps) | 2.25 | 1.50 | 50.0% |
| Final CRPS Dividend (cps) | 1.35 | 1.35 | - |
| EPS (cents per share) (Fully Diluted for CRPS) | 28.54 | 36.29 | (20.7%) |
| EPS Operating (cents per share) (Fully Diluted) | 6.06 | 3.17 | 93.0% |
| Net Debt/Equity | 14% | 27% | - |
| Net Assets per Share (cents) | 158 | 120 | 31.7% |
| Net Tangible Assets per Share (cents) | 119.75 | 106.35 | 12.6% |

*Notes:*

1. *Operating EBDITA and EBITA excludes pre-tax abnormal or non-operating charges and gains with an add back of non cash employee share option expense of $448k, elimination of the gain due to the disposal of a2MC investment and the share of profit from associates.*
2. *Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group) and 1% of PDG Equity accounted NPAT for period 1st July 2015 to 31st December 2015.*
3. *Operating Pre Tax Profit and Net Profit does not include the gain due to the sale of a2MC investment and the net share of profits from associate.*

The Company's income tax provision on operating profit (excluding impact of gain on a2MC) reflected the allowable portion of deductible capital works expenditure on income producing assets undertaken during the year.

# Freedom Foods Group Employee FOCUS 2016

## Renee Rogers

We are fortunate to have people within the Company that are committed to our mission and every day make an extraordinary contribution. With this year's Annual Report and reports in future years, we will bring a focus to one of our employees, whom epitomises these extraordinary contributions.

This year the employee focus is on Renee Rogers the National Business Manager for the Foodservice channel. Renee joined Freedom Foods 3 years ago and her energy and commitment has been a key part of the success the company is having in the very competitive channel.

If you speak to Renee you will soon realise how much she loves the Foodservice channel and especially the Café channel where Renee has played a crucial role in the development and execution of Freedom Foods focus brand MILKLAB. Renee's role requires a very high level of commitment as relationships are the most important thing in developing a successful business. Renee is all over the country attending trade shows, door to door barista sessions and trainings where brands are built in this channel.

Some of the success Renee has brought to the business includes barista milk ranging into RFG (Retail Food Group) Australia's largest coffee franchise with brands including Gloria Jeans, Brumbys, Café2U and Michels Patisserie, winning contracts in the leisure space with dairy milk on P&O cruises and developing strategic relationships with key distributor partners including Countrywide, Bidvest, PFD, Parmalat and Fonterra to name a few.

Renee's contribution to the business means that MILKLAB is growing from strength to strength. After winning the award for best new foodservice product 2015, MILKLAB is providing a total barista solution for Cafes around Australia. Renee lives the company values every day and will be one to watch as the Foodservice channel becomes a bigger contributor to the total company result.

# Plant based beverages business group

Plant based or non dairy production volumes increased during the period to support the growth of the Australia's Own brand, new branded product launches as well as an expansion of private label requirements.

# Branded portfolio



## Largest supplier of Almond Milk Beverages

Plant based branded beverage sales continued the upward trend from the 2015 financial year, with volume growth compared to the previous corresponding period, reflecting increased sales of Australia's Own Almond blends and Blue Diamond Almond Breeze brands in retail, food service and convenience channels.

In retail grocery, the Company remains the largest supplier of Almond beverages, including products under the Australia's Own brand, our licensed Blue Diamond Almond Breeze brands and private label offers. During the period, the Almond Milk category became the largest non-dairy category, accounting for 39% of the retail non-dairy category, compared to 33% at July 2015. Soy declined further with total share at 38%, compared to +50% in prior years. It is expected that Almond and related blends will continue to grow share within retail and other channels, reflecting consumer trends comparable to developments in North America, where Plant based beverages continue to grow share.

As part of a focus on building beyond traditional retail channels, the Company launched new innovation in plant and dairy based products for food service and Petrol & Convenience channels, with a particular focus on coffee milk applications.

The increasing growth of food service channels (eg cafes and similar) and demand for plant based milks, consistent with the retail grocery trend, has seen increasing demand for coffee milk products.

# Branded portfolio

The Company has targeted this channel opportunity with the development and launch of a range of Barista blend brands including the premium "MILKLAB" range, "Almond Breeze" Almond Barista and "So Natural" Barista Soy that incorporate process technology to deliver a product that "works" with coffee.

During the year, the Company increased investment in marketing and distribution of these brands, with a resulting strong growth in brand recognition and sales. The Company sees significant growth opportunity in the growing and higher margin food service channel, including in offshore markets.

The Company also developed products for application in the Petrol & Convenience channel, with the launch in the second half of 2016 of Breakfast Blends (a range of premium breakfast drinks combining almond and oats). This launch, along with further innovation, is expected to lead to increased sales and profitability and build the Company's distribution capabilities in this channel.

Financial returns in the Almond portfolio continued to be impacted during the year by increased Almond inputs (reflecting exchange rate and market pricing). A recent reduction in market prices globally for Almond is expected to provide an improvement in financial returns over the next 12 months, although limited by a requirement to source from the USA for Almond Breeze and limited supply of organic almonds for the Australia's Own product range.

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



# Non-branded portfolio


## Largest supplier of UHT Private Label products

The Company is a significant supplier of plant based beverages and liquid stock products to retailers and other brands, reflecting a total category approach that leverages our manufacturing platform and provides a strong base of earnings to further invest into our brands.

During the year, volumes for retailer and other branded products increased over the prior year period. Additional customers were also secured during the year including entering into medium term contracts for supply to retailers.

The Company believes its continued investment in product development and leading manufacturing capability in plant based beverages provides for significant long term growth in supporting retailer and other branded products.

# New UHT facility at Ingleburn, South West Sydney

## Largest investor in UHT technology and capacity in Australia

Our current plant based non-dairy capabilities are constrained in both production and distribution at our Taren Point operation, restricting growth and financial returns. While our overall profit in this segment grew, the potential additional profit from growing volumes was impacted at a contribution level by an increasing cost of plant reliability and outsourced distribution arrangements at our operationally constrained Taren Point facility.

The Company is well progressed on the construction of a new UHT facility at a site in Ingleburn in South West Sydney. The impacts of autumn and winter rains in Sydney has seen construction delayed, with completion of core building works expected by December 2016, with equipment installation now planned to occur during March 2017. The transfer of operations to the Ingleburn site from our existing Taren Point operation will be staged over a 6 month period to ensure continuity of supply.

1st stage installed UHT carton capacity is expected to be approximately 80 million litres, from current capacity at Taren Point of approximately 50 million litres.

The Company is also progressing installation into the Ingleburn facility of a state-of-the-art UHT PET plastic bottle capability that will facilitate expansion of our branded product range into retail, food service and Petrol & Convenience channels. It will also provide the capacity for domestic and export sales into China and South East Asia of premium dairy formats utilising dairy milk from the Company's dairy farm operations. This capability is expected to be installed and operating from July 2017.

The new Ingleburn facility will provide for existing and new UHT carton and plastic packaging capabilities. The facility will also be capable of processing dairy products, to allow a two-way redundancy with the Shepparton facility, while providing opportunity to expand the Company's base in dairy from multiple processing sites as required. The new facility will provide for significant expansion in capacity and efficiency improvements compared to current operations, including providing a materially more efficient and lower cost production, warehousing and logistics solution compared to current arrangements. This is expected to positively impact sales and earnings during FY 2018.


MACK
CG·27·HD

# Dairy beverages business group

## Branded Portfolio

Dairy based branded beverage sales continued the upward trend from the 2015 financial year with volume growth compared to the previous corresponding period, reflecting increased sales of Australia's Own Kid's Milk and the So Natural and Vitalife brands in domestic food service and export markets.

# Australia's Own



## Largest imported Kid's Milk brand in China

The Company commenced production of our "Australia's Own" branded "Kid's Milk" to support its launch in China in February 2015 under a long term brand licensing arrangement to our Chinese partner JLL.

The product has been launched in a small number of key provinces including Zhejiang, Hunan and Jiangsu, with considerable marketing investment JLL, including point of sale promotion and sampling, external promotion and TV commercials.

Volumes developed throughout the 2015 calendar year, with a strong momentum into the second quarter of FY 2016, as the product started to gain acceptance with consumers, particularly in large format retail supermarkets in the key provinces targeted. With significant ongoing marketing investment including point of sale promotion, sampling and sponsorship of leading children's TV programmes, the growth trajectory has continued into the 2016 calendar year, with the product now the largest imported Kid's Milk brand in China. From late 2016, the Kid's Milk product will utilise milk sourced only from the Company's Moxey Farm operation.

With a forecast significant increase in demand beyond 2016, the Company will install additional high speed 200ml capacity at the new Ingleburn site in 2017. Current capacity for the product format from the Company's Taren Point facility is limited, given ongoing demand for other portion pack formats in Australia.

The Company intends to further build the Australia's Own brand as a premium dairy brand into Australia and China through its partnership with JLL. In Australia, the brand will be used to anchor increased product format capabilities at both Ingleburn and Shepparton facilities to deliver innovative and differentiated products for retail and Petrol & Convenience channels.


FULL CREAM
DAIRY MILK

# So Natural & Vitalife



## Fastest growing 1 Litre dairy product on JD.com

The Company has progressively developed the So Natural brand in the China market, commencing in 2014 through offline specialty channel distributors. Since the launch of the cross border online trading market in 2015, the Company has partnered with JD.com and other distributors in offline channels to promote the So Natural brand as a high quality dairy product, initially launched in 1 Litre format.

Since September 2015, the So Natural brand, with marketing and promotional support, has become the fastest growing 1 Litre dairy product on JD.com's cross border trading platform, establishing a strong consumer franchise based on quality, price and delivery.

With the ongoing support of JD.com, the Company generated further growth into the second half of 2016, although the rate of growth was impacted by the regulatory delays on the inclusion of UHT on the China cross border "positive list", with delayed promotional plans impacting on order rates during May and June.

Since July, sales of "So Natural" and "Vitalife" UHT products have continued to grow through cross border e-commerce channels with the major online retailers JD.com and Tmall. The Company continues to build sales for these brands in general trade e-commerce, reflecting its position as the primary growth channel for e-commerce in China. Sales of these brands continue to grow in traditional retail distribution channels, having established initial distribution in 2014.

To build further brand capability, the Company has launched a portion pack variant and will introduce further dairy product formats into 2016. Other non-dairy products will also be launched under the brands, including Cereal variants.

# Shepparton UHT Operations (Pactum Dairy Group)

## Largest supplier of Contract packed milk brands to China

PDG commenced operations in April 2014 to provide innovative UHT dairy milk capability for our own branded requirements as well as third party customers in domestic and export markets. PDG is a joint venture between Pactum and Australian Consolidated Milk (ACM), a major Australian dairy milk supply group.

With the PDG business moving into profitability in FY 2016, the Company increased its shareholding in PDG to 50% effective 1 January 2016 by converting its convertible notes issued to it as part of its original investment.

As part of this and reflective of the increasing integration of the Shepparton operation into the Company, the results of PDG have been consolidated into the Company for the period between 1st January and 30th June 2016. The Company expects PDG to make a significant contribution to Sales and Profits in future years aligned to the increased integration of PDG to the operations of the Company.

Dairy operations at Shepparton achieved sales in second half of FY 2016 of $37 million, with the business set to experience a significant step up in sales in the 2017 financial year, reflecting the contribution from the new contracts entered into in 2016 and increasing demand in Australia, China and South East Asia.

In Australia, the Company has secured a number of long term retail customers that provide a strong base of underlying volume and earnings support. The customers include Woolworths Supermarkets and a growing major Australian retailer. Some of this volume commenced in second half of FY 2016, with the balance to commence later in calendar 2016. The Company has invested in additional automated packaging capability to provide unique packaging formats for customers. During the second half of FY 2016, the Company experienced higher costs associated with the meeting these customer requirements ahead of the new packaging capability. Current demand for the 1 Litre format has exceeded current capacity, with the Shepparton operation having recently moved to 24/7 production. The capacity increase, along with increased processing capability and upgrades to downstream packaging, will significantly improve efficiencies.

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

In South East Asia, the Company has also developed other customer relationships in markets such as Hong Kong, Philippines and Vietnam, including the recently announced relationship with International Dairy Products (IDP) in Vietnam.

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

# New capacity

## Largest investor in UHT technology & capacity in Australia

During the half, the Shepparton operation finalised the installation of additional portion pack capacity in 250ml Prisma and 200-330ml formats, taking total installed capacity to approximately 120 million litres or 290 million packs per annum.

To meet the increased demand for 1 Litre format from both domestic and export markets, the Company installed additional 1 Litre production capacity, with commissioning completed during July 2016. Current demand for the 1 Litre format has exceeded current capacity, with the Shepparton operation having recently moved to 24/7 production. The capacity increase, along with increased processing capability and upgrades to downstream packaging, will significantly improve efficiencies and provide for the operation to operate on a more efficient 24/6 production cycle.

During the second half, the Company invested in new capabilities to process and package value add milk derivatives including cream in UHT formats. This format is expected to contribute to sales and earnings growth from FY 2017.

The Company is also progressing installation of UHT drinking yoghurt processing capability that will provide for this product to be delivered in a range of UHT packaging formats currently installed at Shepparton. The UHT Drinking Yoghurt category is the fastest growing beverage category in China, with further growth anticipated including from other markets in South East Asia. The Company has significant demand for this product from its existing China based customers including opportunities to sell the product under the Australia's Own and So Natural brands in China. This product is expected to contribute to sales and earnings growth from FY 2018.

# Dairy nutritionals

## Australia's Own Infant Formula

The Company will launch in late September 2016, a range of Infant Formula (IF) products segmented into everyday and premium offers. Australia's Own "Gold" and "Diamond" for Step 1 to 3 will bring best of class in formulation and nutrition with product made in Australia from locally sourced ingredients where available.

The IF products will initially be offered in Australia and China through a direct to customer model, leveraging off the Company's increasing cross border sales channel capabilities and integration with domestic Chinese distributors.

The IF strategy is being developed as part of a longer term plan to build the "Australia's Own" brand as a leading high quality imported brand of choice for childrens nutrition in China. Building off the strong consumer uptake for the brand in China in the 3-7 year age bracket, the Company and our partner JLL are developing plans for the launch of products for infant nutrition and in the 7-12 year age bracket.

With the launch of the IF range initially through e-commerce channels, the brand will be well positioned for a transition to a "Chinese regulated" product into offline market channels from 2018, through the JLL sales, marketing and distribution platform in China.

This IF range is expected to make a breakeven contribution in FY 2017, reflecting start up investment, with sales and earnings contribution from FY 2018.

## Nutritionals Platform

Since the half year results announcement, the Company has progressed design and feasibility work for a specialised nutritionals platform aligned to our increasing dairy capabilities across the group.

The nutritionals platform will provide for protein standardisation and ability to separate milk into industrial grade protein components, including Casein, Lactoferrin, Alpha-lactalbumin and Whey protein isolate.

The market for dairy ingredients is projected to witness growth in the upcoming years due to increasing awareness about the health benefits of nutritional food products. Dairy nutritionals are increasingly used in segments such as bakery & confectionery, dairy products, convenience foods, infant milk formula, sports & clinical nutrition. It is envisaged that a number of dairy nutritional ingredients could be utilised in current and new product formats manufactured by the Company in Cereal, Snacks, Dairy and Plant based products for both our branded products and for other customers branded products. The Company's Infant Formula product range would also utilise the Dairy nutritionals components.

The platform will be established adjacent to the existing UHT site at Shepparton in Victoria, providing synergies with the existing UHT operation and capability to build a more integrated dairy processing platform into the future, including partnership and collaboration with AFMH.

Subject to the requisite local government approvals, the Company is targeting an initial first stage capability to be in operation during calendar 2018, with the potential for a material contribution to sales and earnings from FY 2019.


AUSTRALIA'S OWN
Diamond
toddler
3
AUSTRALIA'S OWN
Diamond
follow-on
2
AUSTRALIA'S OWN
Diamond
infant
1
AUSTRALIA'S OWN
GOLD
infant
formula
1
birth - 6 months
AUSTRALIA'S OWN
GOLD
follow-on
formula
2
6 - 12 months
AUSTRALIA'S OWN
GOLD
toddler
milk drink
3
12+ months

# Dairy nutritionals

## Value Added Supply Chain - Dairy Milk

In July 2015, AFMH, comprising the Perich Group's Leppington Pastoral Company Pty Limited (LPC), New Hope Dairy Holdings Co Ltd and Freedom Foods Group Limited acquired Moxey Farms, Australia's largest single-site dairy operation. Collectively the combined Moxey and Perich Group's Leppington Pastoral dairy milk production is the largest dairy milking operation in Australia.

Moxey Farms operates a fully integrated dairy farming operation located in the Lachlan Valley, New South Wales, 340 km west of Sydney. Moxey Farms land portfolio covers an area of 2,700 hectares and includes 3,700 milking cows that produce approximately 50 million litres of milk per year, with a large proportion of this milk from a2 cows. The Moxey family have retained a strategic stake in AFMH and will remain to manage Moxey Farms in a joint venture with the Perich family.

FNP has a 10% equity shareholding in AFMH, with the balance held by the other consortium members. The Company equity accounted 10% of the net profit of AFMH in the period.

## Farm Expansion and New Sites

## Participant in Australia's top dairy farm delivering 75 million litres of milk pa

Since acquisition, Moxey Farms has expanded from 3,700 milking cows to 5,000 milking cows as part of a $40 million expansion including new state-of-the-art rotary processing dairy, cow barns, effluent management and expansion of land holdings including water and irrigation capabilities.

With new milking having commenced in August 2016, the expansion will be fully completed in October 2016, increasing milk production by 25 million litres. The additional milk output from Moxey Farms will be highly sought by fresh milk processors, given the ongoing decline in fresh milk production in NSW and QLD and requirement to ship milk from Victoria to meet production requirements in those markets. Notwithstanding, it is expected that the Company will use a growing proportion of this new output from Moxey Farm for its Australia's Own Kid's Milk and other dairy product formats, with production of such items to occur at Ingleburn with that facility's completion in 2017.

A further expansion of Moxey Farms is being considered to take the farm to its expected maximum capacity of 7,000 milking cows.

AFMH is also considering acquisition of additional dairy farm sites to build more fully integrated dairy farming operations, allowing its customers to secure access to additional consistent and long-term supply of high quality milk.

# Cereal & snacks business group

# Branded portfolio



## 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. Alongside sales, marketing and specific product launch investments, the Company continued to invest in product development capability to drive further growth in retail and other channels such as food service and Petrol & Convenience in the medium term.

The business experienced growth in new format combination products such as Active Balance, Oat and Muesli products. The new Crafted Blends cereal range introduced with a flake based range in late 2015 was expanded during the second half of FY 2016 to include a range of cluster style combination cereals. Utilising components from our Leeton facility, the cluster formats were produced at the Company's new facility at Dandenong.

Traditional format products (i.e. Corn Flakes, Rice Puffs) experienced declines against the prior corresponding period. To combat this decline and with a strategy to drive growth back into the Health category, the business along with our retail partners invested in additional promotions. The impact of this was to drive the Freedom Foods brand back into category growth as the business entered FY 2017. The business maintained category leadership in Health Cereal, with a +40% market share.

Significant additional ranging of an expanded Crafted Blends range will be in retail stores in the first half of FY 2017, as the business works on delivering more innovation and product differentiation to the Health category.

# Branded portfolio


Since the relaunch of our "nut free" nutritional snack bar range in 2015, the business has experienced growth in both health and mainstream supermarkets channels. In both our health and mainstream positioning for our "nut free" snack bars, the brand experienced strong growth in the 2nd half supported by more increasing consumer recognition and improved promotional frequency. Significant additional ranging of an expanded "nut free" range will be in retail stores in the 1st half FY 2017.

The Freedom Foods "Arnold's Farm" brand achieved growth in its oat based cereal products through its exclusive distribution in Woolworths supermarkets. The brand offer will be expanded during FY 2017 with expanded range of cereals and a complementary snacking offer.

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

We will utilise digital and social media as our primary communication medium to build our brand. We will integrate with brand ambassadors that align with our Company's culture and identity to build consumer awareness.

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

# Branded portfolio


Board members at Alibaba, the parent company of Tmall.

## China

## Fastest growing Australian cereal brand on Tmall

In November 2015, Freedom Foods launched an online flagship store to promote the "Freedom Foods" branded product portfolio to Chinese consumers. With the newly acquired Popina Foods product range and capabilities, Freedom Foods fast tracked the launch into China of Freedom Foods "Arnold's Farm Full o' Fruit", "Freedom Foods Porridge" and oat cluster products to coincide with the Chinese New Year promotional periods.

The Company achieved notable early success, with its sales promotion for the Chinese New Year promotional period on Alibaba's Tmall International site performing well above expectation. The Freedom Foods "Arnold's Farm" brand was the No. 1 Cereal Product on Tmall International during the promotional period and one of the Top 3 selling products in Tmall International.

Following this early success, sales have progressed well, with further growth achieved and increasing brand recognition in this small but growing category in China. The Company and Tmall International have built a joint business plan to accelerate development of a number of key products within the cluster cereal and oat porridge category under the Freedom Foods brands, specifically for the Chinese market. This includes focused promotional activity to coincide with key promotional periods during the calendar year including anniversary promotions and traditional promotional times including June, 11/11 and Chinese New Year.

The market for oat based cereal products in China, including cluster and premium muesli porridge formats, is expected to grow at a fast pace, driven by demand for better quality oats in existing consumption formats, and also changing consumption patterns. The demand for high quality Australian origin oats will also be further developed through consumers accessing product through China's cross border free trade zones and the China Australia Free Trade Agreement, which will reduce tariffs on oat based products over the next 5 years.

With its growing dairy platform already established on key online channels in China, Freedom Foods will utilise this expanding sales and distribution capability to accelerate its Cereal platform to establish a leading position in this rapidly expanding retail channel.


AUSTRALIAN MADE & OWNED
ARNOLD'S FARM
strawberry-licious
previously 'strawberry & yoghurt'
NATURAL MUESLI
with strawberries & yoghurt pieces
bigger yoghurt pieces are back!

# Branded portfolio

## North America

## Top 10 specialty and natural cereal brand in the USA

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

A total of 5,000 distribution points were established by the end of August 2016. Freedom Foods is now ranked in the Top 10 cereal brands in Specialty and Natural channels in the USA. Significant new ranging has been achieved and has been rolling out through the middle of calendar 2016, including an additional 800 Kroger stores (within the natural cereals section) and 350 Target stores, along with other incremental small retailers.

With current portfolio sales skewed to a small number of sweeter tasting products, new products reflective of demand, and that are better aligned to the North American consumer taste requirement have been introduced.

With the North American business having established a growing consumer profile within the Allergen Free and Non GMO categories, the business has focussed on developing a more localised sales and marketing resource over the past six months and expects this to significantly expand distribution over the medium term.




This increased sales, marketing and distribution capability will be utilised to build more scale through expanded offering of Freedom Foods branded products that go beyond the Allergen Free base.

The introduction of products under our Crafted Blends range and a further unique offering, in collaboration with CSIRO will also be launched in North America. The Company also intends to utilise its capabilities in this market to test its specialised MILKLAB "coffee milk" offering in targeted cities in the USA.

Sales increased 21% to A$1.9 million in FY 2016 with the net loss decreasing marginally (including $300k due to exchange rate impact) as the business continues to invest to build a sustainable market share within the retail and wholesale price point parameters available in the North American market. The North American business now contributes approximately 10% of Leeton Cereal production output.

The Company is actively considering options for increased scale in the North American market including the potential for partnerships and acquisitions that also include further utilisation of our expanding production base in Australia. The business is expected to move to a break even position in FY 2017, with a focus on delivering a profitable sales base within the medium term.

# Non-branded portfolio

The Company is a significant supplier of cereal, snack and grain based ingredients to retailers and other brands, reflecting a total category approach that leverages our manufacturing platform and provides a strong base of earnings to further invest into our brands. While the company is less developed in the execution of this strategy in cereal and bars as compared to plant and dairy milks, it represents a significant growth opportunity over the next few years.

During the year, volumes for brand owners and retailers increased over the prior year period. Additional customers were secured during the year including entering into medium term contracts for supply to key customers.

In recent months, the Company has secured its first significant supply of cereals and oat based products to a major brand owner in China. In this instance, the Company's quality and manufacturing capabilities aligned to reducing tariffs under the China Australia Free Trade Agreement secured the opportunity against supply from European markets.

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

# Oats based cereal & snacks acquisition


## Largest oat cluster supplier with over 60% share

As indicated at the half year, the Company completed the acquisition of Popina Foods, a major Australian manufacturer of oat based cereal and snacks during December 2015. Key customers include major brand owners and retailers, as well as manufacturing for its own brands.

Popina Foods (now Freedom Foods Group Dandenong) is a recognised leader in cluster format cereal and snacks in Australasia, with manufacturing operations based in Dandenong, Victoria. The acquisition has been a significant strategic addition to the Company allowing it to fast track its ability to expand our brand and category segment offering in oat based products in Australia and into Asia, and for the first time allow the Company to operate manufacturing capability in both allergen free (Leeton) and nut based capabilities (the new business) on a cost competitive basis. Additional integration opportunities in milling and ingredients supply to Dandenong have also been identified.

The purchase price for Popina Foods was approximately $35 million. The acquisition delivered sales and earnings for a 6 month period in FY 2016. It will be accretive to earnings in its first full year of operations in FY 2017 and is expected to provide further operational efficiencies in the medium term.

# Darlington point mill

## Largest supplier of popping corn in Australia with over 40% share

In August 2015, the Company completed the acquisition of the business and assets of the Darlington Point Mill based in the Riverina district of New South Wales, approximately 32kms from Freedom Foods manufacturing facility at Stanbridge, near Leeton.

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

The acquisition price for the assets (excluding raw materials) was approximately $8.5 million. The acquisition comprised assets located at the site including 7.5 hectares of land, several modern large and medium sized grain silos, flour processing plants, other machinery and equipment and buildings including an export container facility.

The acquisition delivered a sales and earnings contribution in FY 2016. It will be accretive to earnings in its first full year of operations in FY 2017 and is expected to provide further operational efficiencies in the medium term.

Since acquisition, the Company has upgraded the Darlington Point Mill operations investing in particular in people and systems for managing production, quality and receival and dispatch systems. The Company has begun to expand the milling operations for internal use and external customers, to both grow sales and access cost efficiencies. Already the business is seeing increased demand for its Popping Corn and Maize flour products. Our sub scale milling operations at Leeton have been relocated to the Darlington Point Mill, with the equipment being used to allow the Mill to undertake smaller specialised runs. In addition the relocation has freed up space at Leeton, providing for increased finished goods warehousing capabilities.

With the significant increase in oats purchasing and processing requirements from the acquisition of the Popina Foods business, and a macro outlook for ongoing growth in demand for oats, the business is in the final stages of a feasibility study to process oats at the Darlington Point site. This would include procurement of oats through our own Freedom Farmers base, as well as storage and processing of all current and projected requirements. The Company is targeting an initial first stage capability to be in operation from calendar 2018.

# Freedom farmers

## Aiming to be a fully integrated paddock to plate provider

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

During the half year, the Company managed, for the first time, seed and planting processes under contract with its Freedom Farmers for Popping Corn, Maize and Buckwheat to be delivered through calendar 2016. Additional contracts are being put in place for 2016 plantings, for delivery in calendar 2017. The impact of these plantings and subsequent crops will see changes to working capital requirements in the coming years.

# Cereal & snacks manufacturing base

The Company intends to maintain, in the medium term, an integrated cereal and snacks operation at Leeton and an oats and cluster format cereal processing and packaging operation at Dandenong.

Existing oat based manufacturing capabilities at our Dandenong facility are at capacity, reflecting increased market demand for cluster format cereal and snacks in Australasia and recognition of Dandenong as a leading manufacturer in this area. To provide additional capacity to meet the growing demands of existing customers and our branded portfolio as well as capability to grow into China and South East Asia, the Company has committed to a significant expansion of cereal oven and related packaging capabilities at the Dandenong facility. The capacity expansion is expected to be installed from September 2016 and will provide for growth in sales and earnings from FY 2017.

With increasing demand for snacking products in both allergen free and all purpose formats, the Company will maintain existing snacking capabilities at both sites. An upgrade to the Dandenong snacking capability to provide for increased throughput and DDP (paste extrusion) technology will be made prior to December 2016. This will allow the Company to meet all its branded and non branded customer requirements over the medium term.

# Cereal & snacks outlook



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

The acquisitions of the Dandenong oats platform and the Darlington Point Mill has accelerated the business plan and provide further value adding scale benefits to the expanding sales, manufacturing and supply chain footprint of the Cereal and Snacks business.

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

The incremental capital expenditure in oats processing, bar processing and milling capability will assist in delivering an expanded and more relevant product suite, a lower cost base and capacity to enable the business to build sales through more effective throughput and efficiencies. The opportunity to build our state of the art facilities into significant value adding assets through processing high value added niche products will assist in building a leading Cereal and Snacks business across all segments of the market.

# Specialty foods




## Number 1 Sardine brand in Australasia

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

During the second half of FY 2016, Sardine supply from Canada was constrained due to weather conditions that impacted fishing quotas. This had a significant impact on available supply and the Brunswick range was restricted in meeting normal sales promotions. Supply has recommenced since and the Company intends to maintain a dual supply base for Atlantic sourced Sardines to reduce exposure to a single fishing area.

Against this, the Paramount Salmon brand performed well during the period. While commencing Salmon inventory reduced our exposure to AUD/USD exchange rate decline, the last 9 months of the year was impacted by unfavourable exchange rate on the balance of purchasing in Salmon and Sardines. Tight management of sales promotions and reduced promotional spend negated some of the exchange rate impact on gross margin.

The business remains focused on positioning for growth through calendar 2016 through category leadership of the Specialty Seafood channel, including new product opportunities aligned to consumer demand for convenience and superior health benefits.

The business continued to utilise the procurement power of Bumble Bee Foods of North America, with Bumble Bee securing FY 2016 inventory requirements through priority access to salmon and sardine catch volumes.

# Corporate & group management

# Talent & technology

The Company continued to make investments in people and capability. During the period, we significantly increased our talent and capability in our retail sales team in Australia and China, our marketing and innovation team across beverage, cereal and snacks capability, quality systems, operations, financial and compliance. For our expanding capital projects initiatives, we increased our capability to manage and install our key projects that will provide for ongoing capability at our sites, reducing reliance on 3rd party providers.

In our senior team, we have appointed a Chief Financial Officer who commenced on 1 September 2016.

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

The Company is well progressed on a complete transformation of its IT/ERP systems. From October through December 2016, the Company will upgrade from its existing 1st generation platform to a new cloud based ERP system. Integrated through all aspects of the Company including sales, marketing, operations, supply chain and quality, the Company will have a capability to further analyse its business, significantly increase productivity and provide for growth. The Company intends to be a leader in utilising digital technologies to further automate and streamline its operations.

# Diversity & inclusion

The Company embeds diversity and inclusion in the workplace and recognises the value that diversity plays in contributing to performance. The Company fosters inclusion regardless of age, gender, race, ethnicity or sexual orientation.

Female employees represent 35% of the Company's workforce, which is an increase of 1% from 2015.

Female employees represent 28% of senior management roles within the Company, which is an increase of 9% from 2015.

The Company endorses a flexible work environment to balance between work and family responsibilities and is committed to being an equal opportunity employer.

# Quality & food safety

At Freedom Foods Group our mission is Making Food Better. Quality and food safety is the foundation for the ongoing success of the Company. The Company strives to achieve quality across the business through the products, services and people. Quality and food safety is intrinsic to the business philosophy and culture. The quality and safety of the products, as well as meeting the requirements of the customers, are of the highest priority to the Company.

The Company is committed to the ongoing review of the food safety and quality objectives and has a focus on continuous improvement by constantly reviewing and challenging the Quality and Food Safety Management Systems, as well as utilising improvement methodologies to ensure delivery on the Company's quality commitment.

The Quality and Food Safety Systems are subject to regular audits by independent certification bodies with an emphasis on compliance to standards and regulations. All our sites are certified to globally recognised standards such as Safe Quality Food (SQF) or British Retail Consortium (BRC). Our newly acquired Mill in Darlington Point has Hazard Analysis and Critical Control Points (HACCP) certification with the objective of achieving globally recognised certification in FY 2017 for this Mill.

We continue to build our Quality Management Systems with robust internal audit programs to monitor and drive improvements.

Quality and food safety training is provided through an induction training program and on going training of manufacturing and quality assurance teams. The Audit and Risk Committee monitors quality and food safety through regular risk management reports and scorecard reporting.

To ensure the integrity of the Company's allergen free products, all suppliers go through a rigorous approved supplier program prior to engagement. Verification testing is completed on our raw materials and finished products to ensure quality is not compromised. The Company has an on site testing laboratory where products are tested for allergens using the best available enzyme-linked immunosorbent assay (ELISA) testing kits on the market. The Company also use external National Association of Testing Authorities (NATA) certified food laboratories to validate the Company's testing methods.

# Quality & food safety

Some key initiatives the Company has undertaken during the year include:

- Moving onto a cloud based Quality Management System platform that will drive significant advantages in managing data, monitoring trends in real time and increase efficiencies with the quality function.
- As customer satisfaction is paramount to the Company, a customer service web based system has been implemented. This enables the Company to ensure enquiries are dealt with in an effective and efficient manner. Trending, reporting and response times have been incorporated as key measures to continually improve the customer service experience.
- The Quality and Food Safety policy has been revised and standardised across the Company to reinforce the commitment to quality and food safety.
- The Company has attracted top talent into our Quality team both into our sites and Company level such as in the regulatory compliance arena with the appointment of a regulatory specialist which will continue to develop robust systems around compliance.
- Reporting on quality performance and driving continuous improvement.

# Capital management

## Capital Raising

The Company completed a capital raising in November 2015 that comprised a pro-rata accelerated non-renounceable entitlement offer and institutional placement.

The offer raised a total of $65 million, with the institutional component being significantly oversubscribed with strong demand from a broad range of high quality institutional investors including existing institutional shareholders. The offer price was $2.85 per share, which represented a 2.4% discount to the average trading price over the preceding 30 day period.

The funds raised from the capital raising are being utilised in the funding of the Company's growth strategy including the acquisition of Popina Foods, construction of a new UHT processing facility at Ingleburn as well as providing the Company with additional balance sheet flexibility for future growth opportunities.

## Sale of The a2 Milk Company Shareholding

In October and November 2015, the Company disposed of its entire shareholding in The a2 Milk Company Limited (a2MC) in 2 block trades at an average price of A$0.77, generating approximate net proceeds of A$90 million.

The Company realised its investment in a2MC on the basis that the opportunity cost arising from the market value of the funds employed in the holding would be better utilised being applied to activities and businesses in respect of which the Company has either 100% ownership or significant ownership and control interests.

The total profit from investment in a2MC, since the original investment in 2007, was A$85 million, a return of 425% on the original investment.

## Cash & Liquidity

The Company held cash of $63.9 million at 30th June 2016, with total borrowings of $103.8 million, comprising term facilities, equipment finance leases and working capital facilities. Net debt at 30th June 2016 was $39.9 million, with a net debt to equity ratio of 13.9%.

Cash flow from operations was $13.4 million, an increase of $5 million from FY 2015, reflecting increased sales offset by increases in working capital requirements associated with inventory build for the changing mix of business in beverages and new product launches.

During the period, the Company invested $63.1 million in capital expenditure (relating to Leeton operations, Darlington Point Mill, Dandenong, Shepparton and new facilities being constructed at Ingleburn) funded by cash.

## Dividends

Consistent with the improved profitability and positive outlook for group performance, the Company will pay a final fully franked dividend of 2.25 cents per ordinary share in November 2016, an increase of 0.75 cents per ordinary share on the final dividend paid in FY 2015. The record date for determining entitlements is 2nd November 2016 and the payment date is 30th November 2016. This brings the total dividend declared in FY 2016 to 4.0 cents per ordinary share (a 33% increase from 3.0 cents in FY 2015).

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

The Company will pay a fully franked converting preference share dividend in accordance with the terms of the converting preference shares. The record date for determining entitlements is 2nd November 2016 and the payment date is 30th November 2016.

There are 101,617 converting preference shares remaining on issue at 31st August 2016. 35,400 converting preference shares were converted to ordinary shares during the 12 months ending 30th June 2016.

# Group outlook

The Company is strategically well positioned to build scale in its key business platforms of plant based beverage, premium dairy and specialty cereal and snacks, with strong sales and earnings growth over the long term from Australia and key international markets in China, South East Asia and North America.

Increasingly 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.

Our commitment to servicing a broader category including retailers and other brand owners will remain, driving scale and generating earnings to support our brand strategy.

The Company is developing 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 will be a key strategic advantage in the medium to long term, particulary in value adding Australia's unique agricultural base. While this requires significant capital investment and patience, we will continue to invest to achieve this outcome.

The expansion of our plant based beverage capabilities in Sydney in 2017 is expected to result in a material increase in sales and profitability, with further growth opportunities through meeting the increasing demands of our brands as well as our our private label and branded customer base.

The dairy platform being established provides a material opportunity to increase exposure to the growing demand for high quality and safe dairy products from China and South East Asia, aligned more closely through our brands as well as our strategic customers. With strong sales growth and increasing profitability into calendar 2017, the increase in the Company's shareholding in PDG to 50% (from the conversion of convertible notes) and the resulting consolidation of PDG from 1 January 2016 will

contribute to sales and earnings. Our expansion into Dairy Nutritionals provides an opportunity to build a more integrated dairy processing platform into the future, with the potential for a significant increase in sales and earnings.

The Cereal, Snacks and Milling business is strategically well positioned to build a significant growth platform in multiple products, channels and distribution across Australia, China and North America. The business will deliver increasing sales and profit through innovation in new products, expansion of distribution channels in Australia and international markets, together with increasing manufacturing efficiencies from volume and cost efficiencies arising from the capital investment program at Leeton, Darlington Point Mill and Dandenong. This, aligned with investment in building awareness of the brand across a broader consumer market open to healthier products, is expected to provide a strong base for growth into future years.

We will evaluate acquisitions that add value to and significantly accelerate and or leverage our sales, marketing and operational platforms.

Our capital raising and realisation of the investment in a2MC, along with support from our banking partners, provides a strong balance sheet capability to execute our strategy.

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.

With the Company experiencing a strong start to the 2017 financial year across all business areas, the Company anticipates the ongoing benefits of the strategy and its multi stage capital investment programme to accelerate increased group profits and returns in FY 2017 and beyond.

# Financial report

# Directors' report

The Directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Group') consisting of Freedom Foods Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

## Directors

The following persons were Directors of Freedom Foods Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Perry R. Gunner - Chairman (Non-Executive)

Rory J.F. Macleod - Managing Director and Chief Executive Officer (Executive)

Anthony M. Perich - Deputy Chairman and Director (Non-Executive)

Ronald Perich - Director (Non-Executive)

Melvyn Miles - Director (Non-Executive) (resigned on 14 August 2015)

Trevor J. Allen - Director (Non-Executive)

Michael R. Perich - Alternate Director for Anthony M. Perich and Ronald Perich (Non-Executive)

## Principal activities

The principal activities of the Consolidated Entity during the financial year were:

- sourcing, manufacturing, selling, marketing and distribution of specialty cereal and snacks;
- sourcing, manufacturing selling, marketing and distribution of plant and dairy based beverages;
- selling, marketing and distribution of canned specialty seafood;
- investment in large scale dairy farming operations.

The Company operates sales, marketing and distribution activities in Australia, New Zealand, China (South East Asia) and North America (USA).

There were no significant changes in the nature of the principal activities during the financial year.

## Dividends

Dividends paid during the financial year were as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Final fully franked dividend for the year ended 30 June 2015 of 1.50 cents (2014: 1.50 cents) per ordinary share | 515 | 556 |
| Dividends reinvested: fully franked at 30% tax rate | 1,807 | 1,718 |
| Interim fully franked dividend for the year ended 30 June 2016 of 1.75 cents (2015: 1.50 cents) per ordinary share | 688 | 595 |
| Dividends reinvested: fully franked at 30% tax rate | 2,455 | 1,705 |
| Final fully franked dividend for the year ended 30 June 2015 of 1.35 cents (2014: 1.35 cents) per convertible redeemable preference share | 1 | 2 |
| Interim fully franked dividend for the year ended 30 June 2016 of 1.35 cents (2015: 1.35 cents) per convertible redeemable preference share | 2 | 2 |
| | 5,468 | 4,578 |

# Directors' report

On 31 August 2016, the Directors declared a fully franked final dividend of 2.25 cents per share to the holders of fully paid ordinary shares in respect of the financial year ending 30 June 2016, which is to be paid to shareholders on 30 November 2016. The record date for determining the entitlement to the final dividend is 2 November 2016. The dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $4,084,000.

On 31 August 2016, the Directors declared a fully franked final dividend of 1.35 cents per share to the holders of the convertible redeemable preference shares in respect of the financial year ending 30 June 2016, which is to be paid to shareholders on 30 November 2016. The record date for determining the entitlement to the final dividend is 2 November 2016. The dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $1,372.

## Review of operations

The profit for the Group after providing for income tax and non-controlling interest amounted to $50,492,000 (30 June 2015: $56,631,000).

Refer to the commentary in the Managing Director's Review of Operations.

## Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

## Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

## Likely developments and expected results of operations

In future years, the Consolidated Entity expects to further grow through organic sales development and business acquisitions, leveraging its expanding capabilities in supply chain and manufacturing, product development, sales, marketing and distribution in its core business activities. Growth beyond Australia and New Zealand will be targeted through key export markets in Asia (China and South East Asia) and North America, either through company owned capabilities or through strategic alliances and partnerships.

## Environmental regulation

The Consolidated Entity's operations are subject to environmental regulation under the law of the Commonwealth, State and local council regulations.

- There were no breaches of environmental laws, regulations or permits during the year.
- The Consolidated Entity is currently operating in accordance with local councils consent in regard to hours of operation.

## Information on Directors

| | |
|---|---|
| Name: | Mr Perry R. Gunner. |
| Title: | Chairman and Non-Executive Director (Independent). |
| Qualifications: | B.Ag.Sc. |
| Experience and expertise: | Perry is a former Chairman and CEO of Orlando Wyndham Wine Group and was appointed Chairman in July 2006. |
| Other current directorships: | Non-Executive Director of Australian Vintage Ltd. |
| Former directorships (last 3 years): | None. |
| Special responsibilities: | Chairman of the Remuneration and Nomination Committee and member of the Audit, Risk and Compliance Committee. |
| Interests in shares: | 781,569. |

| | |
|---|---|
| Name: | Mr Rory J.F. Macleod. |
| Title: | Managing Director and Chief Executive Officer. |
| Qualifications: | B.Econ (Hons). |
| Experience and expertise: | Rory has been with the group for the past 13 years with direct responsibility for and involvement in the Company's strategic, operational and financial development during this time. He is a former Senior Director, corporate finance for SBC Warburg (now UBS) in Australasia and Europe where he gained extensive experience in strategy and commercial development, mergers and acquisitions and corporate analysis. Prior to his corporate finance background, Rory was an Equities Research Analyst with SBC Warburg (now UBS). Rory was appointed as an Executive Director in 2008 and appointed Managing Director and CEO in August 2012. |
| Other current directorships: | Non-Executive Chairman, Australian Fresh Milk Holdings Pty Limited (AFMH) and its subsidiaries. A Director of operating subsidiaries of Freedom Foods Group Limited. |
| Former directorships (last 3 years): | None. |
| Special responsibilities: | None. |
| Interests in shares: | 1,654,487. |
| Interests in options: | Employee Share Options 2,500,000 @ $2.92. |

# Directors' report

| | |
|---|---|
| Name: | Mr Anthony M. Perich AM. |
| Title: | Non-Executive Director. |
| Experience and expertise: | Anthony is a Member of the Order of Australia. He is joint Managing Director of Arrovest Pty Limited, Leppington Pastoral Company, one of Australia's largest dairy producers and various other entities associated with Perich Enterprises Pty Limited. He is also a property developer, farmer and business entrepreneur. Outside of the Perich Group, Anthony holds a number of other Directorships which include Greenfields Narellan Holdings, East Coast Woodshavings Pty Limited, Breeders Choice Woodshavings Pty Limited, Austral Malaysian Mining Limited and Inghams Health Research Institute. Memberships include Narellan Chamber of Commerce, Narellan Rotary Club, Urban Development Institute of Australia, Urban Taskforce, Property Council of Australia, past President of Narellan Rotary Club and Past President of Dairy Research at Sydney University. He was appointed as a Director in July 2006. |
| Other current directorships: | None. |
| Former directorships (last 3 years): | Austral Malaysian Mining Limited, Pulia Mining Sdn Bhd (Malaysia). |
| Special responsibilities: | Deputy Chairman. |
| Interests in shares: | 99,107,422. |

| | |
|---|---|
| Name: | Mr Ronald Perich. |
| Title: | Non-Executive Director. |
| Experience and expertise: | Ronald is joint Managing Director of Arrovest Pty Limited, Leppington Pastoral Company, one of Australia's largest dairy producers and various other entities associated with Perich Enterprises Pty Limited. He is also a property developer, farmer and business entrepreneur. Former Director of United Dairies Limited. He was appointed as a Director in April 2005. |
| Other current directorships: | None. |
| Former directorships (last 3 years): | None. |
| Special responsibilities: | Member of the Audit, Risk and Compliance Committee and member of the Remuneration and Nomination Committee. |
| Interests in shares: | 99,107,422. |

| | |
|---|---|
| Name: | Mr Melvyn Miles (resigned on 14 August 2015). |
| Title: | Non-Executive Director (Independent). |
| Qualifications: | B.Sc (Hons), F.I.B.D. |
| Experience and expertise: | Melyvn has extensive Fast Moving Consumer Goods (FMCG) experience throughout Australasia, North America and the UK over a period of 26 years. Former Vice President of Carlton and United Breweries and Foster's Group, former Director of Carlton and United Breweries and its subsidiaries and former Chairman of South Pacific Distilleries, Fiji. He was appointed as a Director in November 2006 and resigned in August 2015. |
| Other current directorships: | None. |
| Former directorships (last 3 years): | None. |
| Special responsibilities: | Former member of the Audit, Risk and Compliance Committee. |
| Interests in shares: | None. |

| | |
|---|---|
| Name: | Mr Trevor J. Allen. |
| Title: | Non-Executive Director (Independent). |
| Qualifications: | B Comm (Hons), CA, FF, MAICD. |
| Experience and expertise: | Trevor has 38 years experience in the corporate and commercial sectors, primarily as a corporate and financial adviser to Australian and international public and privately owned companies. Trevor is an independent Non-Executive Director of Peet Limited, where he chairs its Audit and Risk Management Committee and is a member of its Remuneration Committee. He is an independent Non-Executive Director of Eclipx Group Limited, where he also chairs its Audit and Risk Management Committee and is a member of its Remuneration Committee. He is also an independent Non-Executive Director of Yowie Group Limited and has recently been appointed Chair of Brighte Capital Pty Limited, a start-up company financing residential solar and batteries. He will be retiring from the board of Aon Superannuation Pty Ltd, the trustee of the Aon Master Trust, on 31 August 2016. He was also a member of FINSIA's Corporate Finance Advisory Group Committee for ten years until December 2013. Trevor is a consultant to PPB Advisory. Prior to Trevor's Non-Executive roles, he had senior executive positions in the investment banking and corporate advisory sector, including Executive Director – Corporate Finance at SBC Warburg (now UBS) for over 8 years, Director at Baring Brothers Australia for one year and as a Corporate Finance Partner at KPMG for nearly 12 years. At the time of his retirement from KPMG in December 2011, he was the lead partner in its National Mergers and Acquisitions group. From 1997 – 2000 he was Director - Business Development for Cellarmaster Wines, having responsibility for the integration and performance of a number of acquisitions made outside Australia in that period. He was appointed as a Director in July 2013. |
| Other current directorships: | Non-Executive Alternate Director, Company Secretary and Public Officer of Australian Fresh Milk Holdings Pty Limited and Fresh Dairy One Pty Limited. Non-Executive Director of Peet Funds Management Limited, Yowie Hong Kong Holdings Pty Limited, Peet Flagstone Pty Limited and Brighte Capital Pty Limited. |
| Former directorships (last 3 years): | Australian Childcare Projects Limited, Juvenile Diabetes Research Association. |
| Special responsibilities: | Chairman of the Audit Risk and Compliance Committee and a member of the Remuneration and Nomination Committee. |
| Interests in shares: | 68,593. |

# Directors' report

| | |
|---|---|
| Name: | Mr Michael R. Perich. |
| Title: | Alternate Non-Executive Director. |
| Qualifications: | B AppSci (SysAg). |
| Experience and expertise: | Director of Arrovest Pty Limited, Leppington Pastoral Company, one of Australia's largest dairy producers and various other entities associated with Perich Enterprises Pty Limited. Former Director of Contract Beverages Packers of Australia Pty Limited, a joint venture controlled equally by the Company and Arrovest, Director of Australian Dairy Conference and Graduate Member of the Australian Institute of Company Directors post nominals. He was appointed as an alternate Director in March 2009. |
| Other current directorships: | Non-Executive Director of Australian Fresh Milk Holdings Pty Limited, Milk Holdings Pty Limited, Fresh Dairy One Pty Limited, Australian Fresh Milk Pty Limited. |
| Former directorships (last 3 years): | None. |
| Special responsibilities: | None. |
| Interests in shares: | 99,107,422. |

'Other current directorships' quoted above are current directorships for listed entities only and excludes Directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes Directorships of all other types of entities, unless otherwise stated.

## Company secretaries

Managing Director, Mr Rory J.F. Macleod held the position of Company Secretary during and at the end of the financial year. Mrs Sharon Maguire is the Assistant Company Secretary.

The position of Company Secretary has been assumed by the Chief Financial Officer from 1 September 2016.

## Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2016 and the number of meetings attended by each Director were:

| | FULL BOARD | | AUDIT, RISK & COMPLIANCE | | REMUNERATION & NOMINATION | |
|---|---|---|---|---|---|---|
| | ATTENDED | HELD | ATTENDED | HELD | ATTENDED | HELD |
| Perry R. Gunner | 10 | 10 | 4 | 6 | 1 | 1 |
| Rory J.F. Macleod [(i)] | 10 | 10 | 6 | 6 | 1 | 1 |
| Anthony M. Perich | 9 | 10 | - | - | - | - |
| Ronald Perich | 10 | 10 | 3 | 6 | 1 | 1 |
| Melvyn Miles [(ii)] | - | 1 | - | - | - | - |
| Trevor J. Allen | 10 | 10 | 6 | 6 | 1 | 1 |
| Michael R. Perich | 8 | 10 | - | - | - | - |

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

[(i)] *R.J.F. Macleod attended the Audit, Risk and Compliance Committee meetings at the invitation of the Audit, Risk and Compliance Committee.*

[(ii)] *Melvyn Miles resigned as Non-Executive Director on 14 August 2015.*

## Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Group performance, shareholder wealth and Directors and key management personnel remuneration
- Additional disclosures relating to key management personnel

### Principles used to determine the nature and amount of remuneration

Remuneration arrangements for key management personnel of the Company and Group ('the Directors and Executives') are set competitively to attract and retain appropriately qualified and experienced Directors and Executives. As part of its agreed mandate, the Remuneration and Nomination Committee obtains independent advice when required on the appropriateness of remuneration packages given trends in comparable companies and the objectives of the Consolidated Entity's remuneration strategy.

During the year, the Remuneration and Nomination Committee obtained independent advice from Crichton + Associates Pty Limited in relation to current and future remuneration policies and structures for the Company and the Group.

The remuneration structures explained below are designed to attract suitably qualified candidates. The remuneration structures take into account:

- The capability and experience of the Directors and Executives;
- The Directors and Executives' ability to control the relevant operational performance; and
- The amount of incentives within each Director and Executive's remuneration.

### Managing Director and Executives

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

The Managing Director and Executives remuneration levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers the overall performance of the Group.

### Performance based remuneration

Performance based remuneration is at the discretion of the Remuneration and Nomination Committee. These can take the form of share options or cash bonuses although the Company's preference is to link performance and service to a long term incentive arrangement through the Company's Employee Share Option Plan (ESOP).

The ESOP allows the Company to grant options over shares to all Directors (excluding Mr Ronald and Anthony M. Perich) and permanent full time or part time employees, or their respective nominees, of a company in the Group ('Group Companies'), which includes related bodies corporate of the Company and a body corporate in which the Company has voting power of 20% or more, whom the Board determines to be eligible to participate.

The Board believes that options granted are appropriate to aligning key executive performance with long term performance and growth of the Company. The options on issue at 30 June 2016 that are unvested will vest over a period of 5 years and relate to an employee's service period only with the exception to the performance based options detailed below. Each employee share option converts into one ordinary share of the Parent on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. There are no vesting conditions attached to the options issued at 30 June 2016 other than continuing employment within the Group. The vesting details for options issued to Mr Rory J.F. Macleod and Mr Amine Haddad are on page 69 under Share-based Compensation, Employee Share Options.

### Non-Executive Directors

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at an Annual or Extraordinary General Meeting. Total fees for all Non-Executive Directors, last voted upon by shareholders in June 2013, was not to exceed $500,000 in total. Total fees paid to Non-Executive Directors for 2016 was $368,720 (2015: $443,475). To align Director interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

For the year ended 30 June 2016, the Chairman receives approximately 1.2 times the base fee of Non-Executive Directors. The Deputy Chairman receives approximately 1.1 times the base fee of Non-Executive Directors. Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main Board activities including Committee Fees. There are no termination or retirement benefits for Non-Executive Directors.

During the year, the Remuneration and Nomination Committee obtained independent advice from Crichton + Associates Pty Limited in relation to current and future remuneration policies and structures for the Company and the Group. As a result, the fees for Directors in FY 2017 will be adjusted to reflect market practice for comparable listed companies. The fees will also include separate fees for the Chairman of the Audit, Risk and Compliance Committee.

## Details of remuneration

### Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the following Directors of Freedom Foods Group Limited:

- Perry R. Gunner - Chairman and Non-Executive Director
- Rory J.F. Macleod - Managing Director and Chief Executive Officer
- Anthony M. Perich - Deputy Chairman and Non-Executive Director
- Ronald Perich - Non-Executive Director
- Melvyn Miles - Non-Executive Director (resigned on 14 August 2015)
- Trevor J. Allen - Non-Executive Director
- Michael Perich - Alternate Non-Executive Director for Anthony M. Perich and Ronald Perich

Executive Officers

- Amine Haddad - CEO, Commercial Operations Australasia
- Timothy Moses - Group General Manager, Group Operations

In making an assessment of the key management personnel, a review of the roles performed by various senior management was undertaken. This review took into consideration senior management members' ability to plan, direct and control the principle activities of the Group. The result of this review is that Timothy Moses, Group General Manager, Group Operations, has been added to the key management personnel while Michael Bracka, CEO, Freedom Foods North America, is no longer considered key management personnel.

The benefits of each Director who held office and other key management personnel for the year ended 30 June 2016 are as follows:

| | SHORT-TERM BENEFITS | | POST-EMPLOYMENT BENEFITS | LONG-TERM BENEFITS | SHARE-BASED PAYMENTS | |
|---|---|---|---|---|---|---|
| 2016 | SALARY $ | DIRECTORS FEES $ | SUPERANNUATION $ | LONG SERVICE LEAVE $ | OPTIONS $ | TOTAL $ |
| **Non-Executive Directors:** | | | | | | |
| Perry R. Gunner | - | 86,758 | 8,242 | - | - | 95,000 |
| Anthony M. Perich | - | 77,626 | 7,374 | - | - | 85,000 |
| Ronald Perich | - | 68,493 | 6,507 | - | - | 75,000 |
| Melvyn Miles[(1)] | - | 11,416 | 1,084 | - | - | 12,500 |
| Trevor J. Allen | - | 68,493 | 6,507 | - | - | 75,000 |
| Michael Perich *(alternate)* | - | 23,945 | 2,275 | - | - | 26,220 |
| **Executive Directors:** | | | | | | |
| Rory J.F. Macleod | 400,692 | - | 19,308 | - | 280,135 | 700,135 |
| **Other Key Management Personnel:** | | | | | | |
| Amine Haddad | 350,692 | - | 19,308 | - | 168,081 | 538,081 |
| Timothy Moses | 233,192 | - | 19,308 | - | - | 252,500 |
| | 984,576 | 336,731 | 89,913 | - | 448,216 | 1,859,436 |

[(1)] *The Director fees for Melvyn Miles were paid up until his resignation date, 14 August 2015.*

# Directors' report

| | SHORT-TERM BENEFITS | | POST-EMPLOYMENT BENEFITS | LONG-TERM BENEFITS | SHARE-BASED PAYMENTS | |
|---|---|---|---|---|---|---|
| **2015** | **SALARY $** | **DIRECTORS FEES $** | **SUPERANNUATION $** | **LONG SERVICE LEAVE $** | **OPTIONS $** | **TOTAL $** |
| **Non-Executive Directors:** | | | | | | |
| Perry R. Gunner | - | 95,000 | 9,025 | - | - | 104,025 |
| Anthony M. Perich | - | 85,000 | 8,075 | - | - | 93,075 |
| Ronald Perich | - | 75,000 | 7,125 | - | - | 82,125 |
| Melvyn Miles | - | 75,000 | 7,125 | - | - | 82,125 |
| Trevor J. Allen | - | 75,000 | 7,125 | - | - | 82,125 |
| **Executive Directors:** | | | | | | |
| Rory J.F. Macleod | 389,550 | - | 18,783 | - | 60,443 | 468,776 |
| **Other Key Management Personnel:** | | | | | | |
| Amine Haddad | 331,203 | - | 18,783 | - | 43,062 | 393,048 |
| Michael Bracka[1] | 402,261 | - | - | - | 48,856 | 451,117 |
| | 1,123,014 | 405,000 | 76,041 | - | 152,361 | 1,756,416 |

[1] *Michael Bracka was a resident in North America and his salary in USD was $335,000, the above is the converted AUD amount. Superannuation contributions were not due or payable.*

No bonus payments are payable to Executive Directors or other key management personnel with respect to the financial year ended 30 June 2016. The remuneration is fixed in the above tables.

## Service agreements

Neither the Managing Director nor any other Executive has a fixed term contract. All senior executive management are employed under contract. The agreements outline the components of the remuneration paid to executives, including annual review. The agreements do not obligate the business to increase fixed remuneration, pay a short term incentive, make termination benefits or offer a long term incentive in any given year. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. The agreements may be terminated by written notice from either party or by the employing entity within the Group making a payment in lieu of notice. The notice periods are 9 months for the Managing Director, 6 months for CEO, Commercial Operations Australasia and 3 months for Group General Manager, Group Operations. Other notice periods for other executives are between 1 and 2 months.

## Share-based compensation

### Employee Share Options

| GRANT DATE | NUMBER OF SHARES UNDER OPTION | EXPIRY DATE | EXERCISE PRICE | FAIR VALUE PER OPTION AT GRANT DATE |
|---|---|---|---|---|
| 30 August 2012 | 350,000 | 30 August 2017 | $0.60 | $0.066 |
| 1 July 2013 | 1,380,667 | 1 July 2018 | $1.65 | $0.181 |
| 1 July 2015 | 4,000,000 | 30 June 2020 | $2.92 | $1.195 |

| RECIPIENTS | NUMBER DURING THE YEAR 2016 | FAIR VALUE ($) DURING THE YEAR 2016 |
|---|---|---|
| Rory J.F. Macleod - Issued 1 July 2015 | 2,500,000 | 2,987,500 |
| Amine Haddad - Issued 1 July 2015 | 1,500,000 | 1,792,500 |

There is no performance criteria that need to be met in relation to 30 August 2012 and 1 July 2013 series options granted above. The options detailed above vest over a period of 3 years and relate to an employee's service period only.

The holders of these options do not have the right by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

At the AGM on 30 October 2014, approval was granted for 2,500,000 options under the Employee Share Option Plan to be issued to Mr Rory J.F Macleod, Managing Director on 1 July 2015. Unlike the options on issue at 30 June 2015, these options will have a 5 year exercise period and will vest based on the achievement of Group Company EBDITA performance within the 5 year exercise period per the below:

- 750,000 on achievement of audited Group EBDITA of A$38 million;
- 750,000 on achievement of audited Group EBDITA of A$45 million; and
- 1,000,000 on achievement of audited Group EBDITA of A$57 million.

The audited Group EBDITA will be adjusted for any material acquisition or divestment. Since the grant of the options, the Company acquired Popina Foods and assets associated with the Darlington Point Mill (DP Mill). As a result, the Group EBDITA performance targets have been adjusted to the following:

- 750,000 on achievement of audited Group EBDITA of A$42 million;
- 750,000 on achievement of audited Group EBDITA of A$49 million; and
- 1,000,000 on achievement of audited Group EBDITA of A$61 million.

In the final year of the 5 year exercise period for the options granted to Mr Rory J.F. Macleod (and other options issued under the same conditions to Mr Amine Haddad), any options deemed vested on the basis of a preliminary Group EBDITA for 30 June 2020 will be allowed to be exercised based on achievement of an Group EBDITA at 30 June 2020 up and until the audited Group EBDITA at 30 June 2020 is confirmed no later than 30 September 2020.

The options have been valued using an independent valuation from Ian S. Crichton (BA, FCA, MFTA), Principal, Crichton + Associates Pty Limited. The valuation and annual expense has been reflected in the Statement of profit or loss and comprehensive income.

# Directors' report

## Group performance, shareholder wealth and Directors and key management personnel remuneration

The remuneration policy of the Company and Group is at the discretion of the Remuneration and Nomination Committee

The earnings of the Group for the five years to 30 June 2016 are summarised below:

| | 2016 $'000 | 2015 $'000 | 2014 $'000 | 2013 $'000 | 2012 $'000 |
|---|---|---|---|---|---|
| Gross sales revenue* | 213,833 | 129,502 | 122,722 | 115,514 | 72,556 |
| Operating EBITDA** | 21,526 | 16,420 | 15,289 | 11,600 | 5,447 |
| Operating net profit** | 10,818 | 4,970 | 12,518 | 6,351 | 3,305 |
| Profit after income tax | 50,631 | 56,631 | 12,132 | 13,722 | 3,012 |
| EPS (Fully Diluted for CRPS) on operating net profit | 6.06 | 3.14 | 8.15 | 5.40 | 3.32 |

* *Gross sales revenues in the table above differs from the reported revenue, as the gross sales revenue above includes intercompany sales eliminated from the statutory reported revenue from sale of goods figure. This treatment reflects the Group's arm's length trading policy between Group activities.*

** *Operating EBITDA/Operating net profit excludes the non-operating charges and gains with an add back of the non-cash employee share option expense of $448,000, elimination of the gain on disposal of a2MC investment $25 million and fair value gain on conversion of convertible notes to shares of $22 million.*

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Share price at financial year end ($) | 4.06 | 2.96 | 2.76 | 1.65 | 0.60 |
| Total dividends declared (cents per share) | 3.25 | 3.00 | 2.50 | 2.00 | 0.50 |
| Basic earnings per share (cents per share) | 29.52 | 37.11 | 8.65 | 14.73 | 3.88 |
| Diluted earnings per share (cents per share) | 28.54 | 35.99 | 8.14 | 11.96 | 3.03 |

With regard to a rapidly expanding and growing Company, the Remuneration and Nomination Committee has undertaken a review of the Company's remuneration strategy and framework that provides for alignment with the Company's business and growth strategy. The review which included obtaining independent advice will focus on the mix of fixed versus variable remuneration and measures and targets for both short term and long term incentive plans. The new framework will be introduced from FY 2017.

## Additional disclosures relating to key management personnel

### Key management personnel equity holdings

The number of shares in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | BALANCE AT THE START OF THE YEAR | RECEIVED ON EXERCISE OF OPTIONS | DIVIDEND REINVESTMENT PLAN | OTHER CHANGES DURING THE YEAR | BALANCE AT THE END OF THE YEAR |
|---|---|---|---|---|---|
| **Ordinary shares** | | | | | |
| Perry R. Gunner*** | 853,157 | - | - | (71,588) | 781,569 |
| Rory J.F. Macleod*** | 1,824,482 | 966,667 | 975 | (1,137,637) | 1,654,487 |
| Anthony M. Perich* | 86,938,153 | - | 930,451 | 11,238,818 | 99,107,422 |
| Ronald Perich* | 86,938,153 | - | 930,451 | 11,238,818 | 99,107,422 |
| Melvyn Miles** | 335,410 | - | - | (335,410) | - |
| Trevor J. Allen | 61,178 | - | - | 7,415 | 68,593 |
| Michael Perich* | 86,938,153 | - | 930,451 | 11,238,818 | 99,107,422 |
| Amine Haddad | 669,999 | 716,666 | 877 | (194,580) | 1,192,962 |
| Timothy Moses | - | 100,000 | - | - | 100,000 |
| | 264,558,685 | 1,783,333 | 2,793,205 | 31,984,654 | 301,119,877 |

* *Anthony M. Perich, Ronald Perich and Michael Perich (as their alternate) are Joint Managing Directors of Arrovest Pty Limited, an entity holding direct interest in the Group.*

** *Melvyn Miles ceased to be a key management personnel on 14 August 2016 due to his resignation as Director.*

*** *Perry R. Gunner disposed of 200,000 shares to satisfy trustee requirements to re-weight his superannuation portfolio. Rory J.F. Macleod disposed of 1,175,000 shares to fund income tax payments, portfolio management, employee share option exercise and repayment of loans relating to shareholdings. The disposals are included in other changes during the year.*

Directors and key management personnel shareholdings increased during the year as a result of the Company issuing new shares under the Placement and Entitlement Offer during October 2015.

### Employee share options in the Group

The number of options over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | BALANCE AT THE START OF THE YEAR | GRANTED | EXERCISED | EXPIRED/ FORFEITED/ LAPSED | BALANCE AT THE END OF THE YEAR |
|---|---|---|---|---|---|
| **Options over ordinary shares** | | | | | |
| Rory J.F. Macleod | 966,667 | 2,500,000 | (966,667) | - | 2,500,000 |
| Amine Haddad | 716,666 | 1,500,000 | (716,666) | - | 1,500,000 |
| Timothy Moses | 175,000 | - | (100,000) | - | 75,000 |
| | 1,858,333 | 4,000,000 | (1,783,333) | - | 4,075,000 |

| | VESTED AND EXERCISABLE | UNVESTED AND UNEXERCISABLE | BALANCE AT THE END OF THE YEAR |
|---|---|---|---|
| **Options over ordinary shares** | | | |
| Rory J.F. Macleod | - | 2,500,000 | 2,500,000 |
| Amine Haddad | - | 1,500,000 | 1,500,000 |
| Timothy Moses | 75,000 | - | 75,000 |
| | 75,000 | 4,000,000 | 4,075,000 |

All share options issued to key management personnel were made in accordance with the provisions of the ESOP.

No Director or senior management personnel of the Group appointed during the year received a payment as part of his or her consideration for agreeing to hold the position.

## Indemnity and insurance of officers

The Group has not, during or since the financial year, in respect of any person who is or has been an officer of the Company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay, a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings; with the exception of the following matter.

During the financial year the Group paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of an officer of the Group. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

## Proceedings on behalf of the Company

No person has applied to the Court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

## Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 35 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 35 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by The Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## Rounding of amounts

The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016 and in accordance with that Corporations Instrument amounts in the Directors' report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Perry R. Gunner
Chairman

Rory J.F. Macleod
Managing Director and Chief Executive Officer

31 August 2016
Sydney

# Corporate governance statement

## Corporate governance

Freedom Foods Group Limited ('the Company') continued to follow best practice recommendations as set out by the ASX Corporate Governance Council. Where the Company has not followed best practice for any recommendation, explanation is given in the Corporate Governance Statement which is available on the Company's website at **www.ffgl.com.au**.

# Auditor's independence declaration

Deloitte.

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The Board of Directors
Freedom Foods Group Limited
80 Box Road
Taren Point NSW 2229

31 August 2016

Dear Board Members

**Freedom Foods Group Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Freedom Foods Group Limited.

As lead audit partner for the audit of the financial statements of Freedom Foods Group Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A. Coleman.

Andrew J Coleman
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
A member of Deloitte Touche Tohmatsu Limited.


freedom

# Statement of profit or loss and other comprehensive income

## For the year ended 30 June 2016

| | NOTE | CONSOLIDATED 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Revenue from sale of goods | 5 | 170,444 | 91,460 |
| Cost of sales | | (119,763) | (58,385) |
| Gross profit | | 50,681 | 33,075 |
| Other income | | 307 | 896 |
| Gain from reclassification of a2MC investment | 29 | - | 53,148 |
| Other gains and losses | 6 | 658 | - |
| Gain from disposal of a2MC investment | 29 | 24,529 | - |
| Fair value gain on conversion of options in PDG | 36 | 22,353 | - |
| **Expenses** | | | |
| Marketing expenses | | (3,964) | (4,264) |
| Selling and distribution expenses | | (17,352) | (12,221) |
| Administrative expenses | | (9,421) | (5,040) |
| Depreciation | | (6,439) | (3,354) |
| Acquisition costs | | (1,227) | - |
| Other expenses | | (2,232) | - |
| Net finance costs | | (1,151) | (218) |
| Share of profits/(losses) of associates accounted for using the equity method | 28 | 372 | (42) |
| **Profit before income tax expense** | | 57,114 | 61,980 |
| Income tax expense | 13 | (6,483) | (5,349) |
| Profit after income tax expense for the year | | 50,631 | 56,631 |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | |
| Gain on the revaluation of land and buildings, net of tax | 20 | - | 1,026 |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Revaluation of investment in a2MC, net of tax | 29 | - | 5,841 |
| Foreign currency translation | 20 | (279) | (193) |
| Fair value movement in a2MC investment, net of tax | 20 | 16,281 | - |
| Reclassification to profit or loss on disposal of a2MC investment | 20 | (22,122) | - |
| Other comprehensive income for the year, net of tax | | (6,120) | 6,674 |
| **Total comprehensive income for the year** | | 44,511 | 63,305 |
| Profit for the year is attributable to: | | | |
| Non-controlling interest | | 139 | - |
| Owners of Freedom Foods Group Limited | | 50,492 | 56,631 |
| | | 50,631 | 56,631 |
| Total comprehensive income for the year is attributable to: | | | |
| Non-controlling interest | | 139 | - |
| Owners of Freedom Foods Group Limited | | 44,372 | 63,305 |
| | | 44,511 | 63,305 |
| | | CENTS | CENTS |
| Basic earnings per share | 7 | 29.52 | 37.11 |
| Diluted earnings per share | 7 | 28.54 | 35.99 |

*The above Statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

# Statement of financial position

## As at 30 June 2016

| | | CONSOLIDATED | |
|---|---|---|---|
| | NOTE | 2016 $'000 | 2015 $'000 |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 21 | 63,908 | 2,329 |
| Trade and other receivables | 8 | 45,661 | 25,303 |
| Inventories | 10 | 46,213 | 24,475 |
| Derivative financial instruments | 9 | 92 | - |
| Other assets | | 1,053 | 1,700 |
| Prepayments | | 3,281 | 2,094 |
| Total current assets | | 160,208 | 55,901 |
| **Non-current assets** | | | |
| Investments accounted for using the equity method | 28 | 6,163 | 4,432 |
| Investment in a2MC | 29 | - | 72,618 |
| Property, plant and equipment | 11 | 224,351 | 103,430 |
| Intangibles | 12 | 70,435 | 21,488 |
| Deferred tax | 14 | 2,920 | - |
| Loans due from associated entities | | 61 | 13,136 |
| Total non-current assets | | 303,930 | 215,104 |
| **Total assets** | | 464,138 | 271,005 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 49,577 | 18,779 |
| Borrowings | 23 | 32,437 | 22,025 |
| Derivative financial instruments | 17 | 381 | - |
| Income tax | 15 | 11,568 | 8,316 |
| Provisions | | 3,148 | 1,776 |
| Other liabilities | | 938 | 193 |
| Total current liabilities | | 98,049 | 51,089 |
| **Non-current liabilities** | | | |
| Payables | | 52 | 52 |
| Borrowings | 24 | 71,393 | 30,890 |
| Deferred tax | 14 | - | 2,785 |
| Provisions | | 591 | 260 |
| Other liabilities | | 6,235 | - |
| Total non-current liabilities | | 78,271 | 33,987 |
| **Total liabilities** | | 176,320 | 85,076 |
| **Net assets** | | 287,818 | 185,929 |
| **Equity** | | | |
| Issued capital | 18 | 169,106 | 99,028 |
| Non-controlling interest | | (7,541) | - |
| Reserves | 20 | (2,274) | 3,398 |
| Retained profits | | 128,527 | 83,503 |
| **Total equity** | | 287,818 | 185,929 |

*The above Statement of financial position should be read in conjunction with the accompanying notes*

# Statement of cash flows

## For the year ended 30 June 2016

| | NOTE | CONSOLIDATED 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 166,813 | 87,104 |
| Payments to suppliers and employees (inclusive of GST) | | (153,458) | (78,797) |
| Cash generated from operations | | 13,355 | 8,307 |
| Interest received | | 1,216 | 10 |
| Interest and other finance costs paid | | (6,203) | (1,691) |
| Receipts of government grants | | - | 371 |
| Income taxes paid | | (2,675) | (960) |
| Net cash from operating activities | 22 | 5,693 | 6,037 |
| **Cash flows from investing activities** | | | |
| Payment for purchase of business, net of cash acquired | 36 | (39,423) | - |
| Payments for property, plant and equipment | 11 | (63,103) | (49,625) |
| Purchase of shares in associated entity | | - | (529) |
| Advances to associates | | (71) | (2,758) |
| Repayment of loan by associate | | 100 | 1,200 |
| Proceeds from disposal of associate shares | | 90,229 | 107 |
| Investment in equity interest | 28 | (5,760) | - |
| Net cash used in investing activities | | (18,028) | (51,605) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of equity instruments of the Company | 18 | 66,800 | 1,264 |
| Payment of share issue costs | | (1,685) | (77) |
| Dividends paid | 19 | (1,256) | (1,155) |
| Proceeds from borrowings | | 10,362 | 43,088 |
| Payment of related party balances | | (307) | (96) |
| Net cash from financing activities | | 73,914 | 43,024 |
| Net increase/(decrease) in cash and cash equivalents | | 61,579 | (2,544) |
| Cash and cash equivalents at the beginning of the financial year | | 2,329 | 4,873 |
| Cash and cash equivalents at the end of the financial year | 21 | 63,908 | 2,329 |

*The above Statement of cash flows should be read in conjunction with the accompanying notes*

# Statement of changes in equity

## For the year ended 30 June 2016

| CONSOLIDATED | ISSUED CAPITAL $'000 | RESERVES $'000 | NON-CONTROLLING INTEREST $'000 | RETAINED PROFITS $'000 | TOTAL EQUITY $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2014 | 94,419 | (3,636) | - | 31,450 | 122,233 |
| Profit after income tax expense for the year | - | - | - | 56,631 | 56,631 |
| Other comprehensive income for the year, net of tax | - | 6,674 | - | - | 6,674 |
| Total comprehensive income for the year | - | 6,674 | - | 56,631 | 63,305 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of ordinary shares under employee share option plan (Note 18) | 1,264 | - | - | - | 1,264 |
| Issue of ordinary shares in accordance with the dividend reinvestment plan (Note 18) | 3,422 | - | - | - | 3,422 |
| Share issue costs (Note 18) | (110) | - | - | - | (110) |
| Related income tax (Note 18) | 33 | - | - | - | 33 |
| Share-based payments (Note 20) | - | 360 | - | - | 360 |
| Dividends paid (Note 19) | - | - | - | (4,578) | (4,578) |
| Balance at 30 June 2015 | 99,028 | 3,398 | - | 83,503 | 185,929 |

| CONSOLIDATED | ISSUED CAPITAL $'000 | RESERVES $'000 | NON-CONTROLLING INTEREST $'000 | RETAINED PROFITS $'000 | TOTAL EQUITY $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2015 | 99,028 | 3,398 | - | 83,503 | 185,929 |
| Profit after income tax expense for the year | - | - | 139 | 50,492 | 50,631 |
| Other comprehensive income for the year, net of tax | - | (6,120) | - | - | (6,120) |
| Total comprehensive income for the year | - | (6,120) | 139 | 50,492 | 44,511 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of ordinary shares under employee share option plan (Note 18) | 1,420 | - | - | - | 1,420 |
| Issue of ordinary shares in accordance with the dividend reinvestment plan (Note 18) | 4,262 | - | - | - | 4,262 |
| Issue of ordinary shares from an entitlement offer (Note 18) | 65,466 | - | - | - | 65,466 |
| Share issue costs (Note 18) | (1,185) | - | - | - | (1,185) |
| Related income tax (Note 18) | 115 | - | - | - | 115 |
| Additional non-controlling interests arising on the acquisition of Pactum Dairy Group | - | - | (7,680) | - | (7,680) |
| Share-based payments (Note 20) | - | 448 | - | - | 448 |
| Dividends paid (Note 19) | - | - | - | (5,468) | (5,468) |
| Balance at 30 June 2016 | 169,106 | (2,274) | (7,541) | 128,527 | 287,818 |

*The above Statement of changes in equity income should be read in conjunction with the accompanying notes*

# Notes to the financial statements
## For the year ended 30 June 2016

### Note 1. General information

The financial statements of Freedom Foods Group Limited ('Group' or 'Company') for the year ended 30 June 2016 was authorised for issue in accordance with resolution of Directors on 31 August 2016.

Freedom Foods Group Limited is a company incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The Company is trading under the symbol 'FNP'.

The nature of the operations and principal activities of the Group are described in Note 3.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 31 August 2016. The Directors have the power to amend and reissue the financial statements.

### Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### New and amended standards adopted by the Group

The Group has adopted all relevant new and amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) which are effective for annual reporting periods beginning on or after 1 July 2015. None of the new standards or amendments to standards that are mandatory for the first time materially affected any of the amounts recognised in the current period or any prior period and they are not likely to significantly affect future periods.

The following accounting policies have been adopted in the preparation and presentation of the financial statements.

#### (a) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards (IFRS).

#### (b) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The Company is of the kind referred to in the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The financial statements are presented in Australian dollars.

#### (c) Basis of consolidation

The Consolidated financial statements incorporate the financial statements of Freedom Foods Group Limited and its subsidiaries as at 30 June each year ('the Group'). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of profit or loss and comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The non-controlling interests in the investments of Freedom Foods North America Inc. and Pactum Dairy Group Pty Limited are entitled to their proportionate share of that entity's net assets, profits and losses and other comprehensive income during the period. The amounts attributable to the non-controlling interests are not separately disclosed as the financial statements are rounded to the nearest thousand dollars under Australian Securities and Investments Commission Corporations Instrument 2016/191.

### (d) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in the profit and loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### (e) Financial instruments

*Recognition of investments*

Investments are initially measured at fair value, net of transaction costs, except for those financial assets carried at fair value through profit and loss, which are initially measured at fair value when the related contractual rights or obligations exist. Subsequent to initial recognition these investments are measured as set out below.

*Loans and receivables*

Loans and receivables have fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate.

*Available for sale financial assets*

Available for sale financial assets include any financial assets not included in the above categories. Available for sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

*Financial instruments held for trading*

Derivative financial instruments such as forward foreign exchange contracts are included under this classification. The Group does not designate any derivatives as hedges in a hedging relationship.

## Note 2. Significant accounting policies (continued)

### (f) Key estimates and judgement areas

In applying the Group's accounting policies, the Directors are required to make estimates, judgements and assumptions that affect the amounts reported in the financial report.

The estimates, judgments and assumptions are based on historical experience, adjusted for current conditions and other factors that are believed to be reasonable under the circumstances and reviewed on a regular basis. The actual results may differ from these estimates.

The estimate and judgements which involve a higher degree of complexity or that have a higher likelihood of causing adjustment to the carrying amounts of assets and liabilities are included in the following Notes:

- Note 11: Estimates of useful life's of assets
- Note 12: Determining the recoverable amounts of assets
- Note 36: Business combinations and the application of the requirements of control

Revisions to accounting estimates are recognised in the period in which the estimate is revised.

### Issued Standards and Interpretations not early adopted

The below lists the Standards and amendments to Standards that were available for early adoption and were applicable to the Group. The reported results and financial position of the Group are not expected to change on adoption of any of the amendments to current standards listed below as they do not result in any changes to the Group's existing accounting policies.

*AASB 9 (2014) 'Financial Instruments', and the relevant amending standards.*

This Standard is applicable to annual reporting periods beginning on or after 1 January 2018. The Standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' model to recognise an allowance. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed.

*AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'; AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'; AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'; AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'*

These Standards are applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'*

This Standard is applicable to annual reporting periods beginning on or after 1 January 2018. The Standard provides a single Standard for revenue recognition. The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group will adopt this Standard from 1 July 2018 but the impact of its adoption is yet to be assessed.

*AASB 16 'Leases'*

This Standard is applicable to annual reporting periods beginning on or after 1 January 2019. AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The accounting model for lessees will require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets. The Group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed.

## Note 3. Operating segments

The Group is organised into five segments which is the basis on which the Group reports and the principal products and services of each of these operating segments are as follows:

| | |
|---|---|
| Freedom Foods - Cereal, Snacks and Branded Plant Based Beverages | A range of products for consumers including allergen free (ie. gluten free, wheat free, nut free), nutritional oat based, low sugar or salt, highly fortified or functional. The product range covers breakfast cereals, snack bars, soy, almond and rice beverages and other complimentary products. These products are manufactured and sold in Australia and overseas. |
| Pactum - Plant Based Beverages | A range of UHT (long life) food and beverage products including liquid stocks, soy, rice, almond and dairy milk beverages. These products are manufactured and sold in Australia and overseas. |
| Pactum Dairy Group - Dairy Beverages | A range of UHT (long life) dairy milk beverage products. These products are manufactured and sold in Australia. |
| Paramount - Specialty Seafood | A range of canned seafood covering sardines, salmon and specialty seafood. These products are manufactured overseas and sold in Australia and overseas. |
| Freedom Foods North America - Cereal and Snacks | A range of products for consumers including allergen free (ie. gluten free, wheat free, nut free) low sugar, or salt, or highly fortified or functional. These products are manufactured in Australia and sold in North America. |

The 'Unallocated Shared Services' group consists of the Group's other operating segments that are not separately reportable as well as various shared service functions.

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors in its capacity as the chief operating decision maker of the Group in order to allocate resources to the segments and assess their performance.

Intercompany sales are eliminated in the Group's statutory results, however are included in the segment analysis as this is how the Group conducts its business operations.

In the year ending 30 June 2017 and consistent with upgrades to the Company's Information Technology platform, the Company will change its segmented reporting to reflect its core business categories:

- Cereal and Snacks (including branded and non branded);
- Plant Based Beverages (including branded and non branded);
- Dairy Beverages;
- Specialty Seafood; and
- Other.

### Note 3. Operating segments (continued)

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review, together with prior year comparatives:

| CONSOLIDATED - 2016 | FREEDOM FOODS $'000 | PACTUM $'000 | PACTUM DAIRY GROUP $'000 | SPECIALTY SEAFOOD $'000 | FREEDOM FOODS NORTH AMERICA $'000 | UNALLOCATED SHARED SERVICES $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Sales to external customers | 84,250 | 35,402 | 36,500 | 12,404 | 1,888 | - | 170,444 |
| Intercompany sales elimination | 2,494 | 20,594 | 70 | - | - | (23,158) | - |
| **Total revenue** | 86,744 | 55,996 | 36,570 | 12,404 | 1,888 | (23,158) | 170,444 |
| **EBDITA** | 10,632 | 11,296 | 2,002 | 2,025 | (857) | - | 25,098 |
| Convertible loan note & interest income | - | - | - | - | - | 157 | 157 |
| Share of associates profit | - | - | - | - | - | 372 | 372 |
| Shared services including ESOP | - | - | - | - | - | (4,339) | (4,339) |
| Other income | - | - | - | - | - | 150 | 150 |
| Depreciation and amortisation | (2,859) | (1,700) | (911) | - | - | (969) | (6,439) |
| Net finance costs | - | - | - | - | - | (1,308) | (1,308) |
| Gain on a2MC investment (net costs) | - | - | - | - | - | 24,529 | 24,529 |
| Acquisition costs re Popina Foods | - | - | - | - | - | (835) | (835) |
| Acquisition costs re DP Mill | - | - | - | - | - | (392) | (392) |
| Other expenditure | - | - | - | - | - | (2,232) | (2,232) |
| Fair value uplift in conversion options | - | 22,353 | - | - | - | - | 22,353 |
| **Profit/(loss) before income tax expense** | 7,773 | 31,949 | 1,091 | 2,025 | (857) | 15,133 | 57,114 |
| Income tax expense | | | | | | | (6,483) |
| **Profit after income tax expense** | | | | | | | 50,631 |
| **Assets** | 184,852 | 141,084 | 93,140 | 17,461 | 1,448 | - | 437,985 |
| *Unallocated assets:* | | | | | | | |
| Shared services | | | | | | 19,990 | 19,990 |
| Investment in associate | | | | | | 6,163 | 6,163 |
| **Total assets** | 184,852 | 141,084 | 93,140 | 17,461 | 1,448 | 26,153 | 464,138 |
| Acquisition of businesses | (56,112) | - | (92,695) | - | - | - | (148,807) |
| **Segment assets** | 128,740 | 141,084 | 445 | 17,461 | 1,448 | 26,153 | 315,331 |
| **Liabilities*** | 35,649 | 25,965 | 62,998 | 274 | 316 | - | 125,202 |
| *Unallocated liabilities:* | | | | | | | |
| Shared services | | | | | | 51,118 | 51,118 |
| **Total liabilities** | 35,649 | 25,965 | 62,998 | 274 | 316 | 51,118 | 176,320 |
| Acquisition of businesses | (12,046) | - | (69,437) | - | - | - | (81,483) |
| **Segment liabilities** | 23,603 | 25,965 | (6,439) | 274 | 316 | 51,118 | 94,837 |

* *The segment liabilities include finance leases, debtor finance facilities and multi advance facilities relevant to the appropriate operating segment.*

| CONSOLIDATED - 2015 | FREEDOM FOODS $'000 | PACTUM $'000 | SPECIALTY SEAFOOD $'000 | FREEDOM FOODS NORTH AMERICA $'000 | UNALLOCATED SHARED SERVICES $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Sales to external customers | 46,934 | 30,164 | 12,802 | 1,560 | - | 91,460 |
| Intercompany sales elimination | 1,229 | 18,436 | - | - | (19,665) | - |
| **Total revenue** | 48,163 | 48,600 | 12,802 | 1,560 | (19,665) | 91,460 |
| **EBDITA** | 3,350 | 10,457 | 2,535 | (903) | - | 15,439 |
| Convertible loan note interest | - | - | - | - | 525 | 525 |
| Share of associates profit | - | - | - | - | (42) | (42) |
| Shared services including ESOP | - | - | - | - | (3,889) | (3,889) |
| Other income | - | - | - | - | 371 | 371 |
| Depreciation and amortisation | (1,920) | (1,316) | - | - | (118) | (3,354) |
| Net finance costs | - | - | - | - | (218) | (218) |
| Gain on a2MC investment | - | - | - | - | 53,148 | 53,148 |
| **Profit/(loss) before income tax expense** | 1,430 | 9,141 | 2,535 | (903) | 49,777 | 61,980 |
| Income tax expense | | | | | | (5,349) |
| **Profit after income tax expense** | | | | | | 56,631 |
| **Assets** | 86,622 | 67,272 | 19,141 | 1,707 | - | 174,742 |
| *Unallocated assets:* | | | | | | |
| Shared services | | | | | 19,213 | 19,213 |
| Investment in associates | | | | | 4,432 | 4,432 |
| Investment in a2MC | | | | | 72,618 | 72,618 |
| **Total assets** | 86,622 | 67,272 | 19,141 | 1,707 | 96,263 | 271,005 |
| *Total assets includes:* | | | | | | |
| Acquisition of non-current assets | 15,160 | 29,933 | - | - | 4,530 | 49,623 |
| **Liabilities*** | 24,398 | 38,232 | 5,494 | 2,491 | - | 70,615 |
| *Unallocated liabilities:* | | | | | | |
| Shared services | | | | | 14,461 | 14,461 |
| **Total liabilities** | 24,398 | 38,232 | 5,494 | 2,491 | 14,461 | 85,076 |

* *The segment liabilities include finance leases, debtor finance facilities and multi advance facilities relevant to the appropriate operating segment.*

# Notes to the financial statements
## For the year ended 30 June 2016

### Note 3. Operating segments (continued)

All operating segments are conducted in Australia, with the exception of Freedom Foods North America, which operates in North America.

Revenue generated by equity accounted associates from external sales is not consolidated, instead under the equity method of accounting, the carrying amounts of interest in joint venture entities are increased or decreased to recognise the Group's share of post-acquisition profits or losses and other changes in net assets of the joint venture/minority interest.

As a consequence of gaining control over Pactum Dairy Group (PDG) on 1 January 2016, the results of PDG have been shown as a separate segment of the Group, refer to Note 36 for further details.

86% of total external sales of the Consolidated Group are generated in Australia (2015: 94%) and 40% of total external sales (2015: 56%) are through major Australian retailers.

Total profit/(loss) from equity accounted associates for the period totalled $(1,384,141) (2015: $(4,200,000)). The Group's share of these profits/(losses) was $372,000 (2015: $(42,000)).

#### Information about major customers

Included in revenues arising from external sales of $170.4 million (2015: $91.5 million) (see segment revenue above) are revenues of approximately $114.9 million (2015: $51.5 million) which arose from sales to the Group's two largest customers. No other single customers contributed 10% or more to the Group's revenue for both 2016 and 2015.

### Note 4. Expenses

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Profit before income tax includes the following specific expenses: | | |
| Research and development costs expensed | 1,073 | 500 |
| Superannuation expenses | 1,914 | 1,254 |
| Share-based payments expense | 448 | 360 |
| Employee benefits expense excluding superannuation and share-based payment expense | 14,231 | 6,860 |

### Note 5. Revenue

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| **Revenue** | | |
| Revenue from sale of goods | 170,444 | 91,460 |

#### Significant accounting policies

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for terms, rebates and other similar allowances.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the significant risks and rewards of ownership of the goods have been transferred;
- the amount of revenue can be measured reliably;
- it is probable the revenue will be received; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## Note 6. Other gains and losses

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Net foreign exchange gains | 660 | - |
| Net gains on financial assets held at fair value through profit or loss | 76 | - |
| Net losses on financial liabilities held at fair value through profit or loss | (63) | - |
| Other losses | (15) | - |
| | 658 | - |

Other gains and losses in 2015 were reported in revenue from sale of goods in the amount of $95,477.

## Note 7. Earnings per share

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Profit after income tax | 50,631 | 56,631 |
| Non-controlling interest | (139) | - |
| Profit after income tax attributable to the owners of Freedom Foods Group Limited | 50,492 | 56,631 |
| Share-based payments expense | 448 | 360 |
| Profit after income tax attributable to the owners of Freedom Foods Group Limited used in calculating diluted earnings per share | 50,940 | 56,991 |

| | NUMBER | NUMBER |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 171,052,844 | 152,587,346 |
| Adjustments for calculation of diluted earnings per share: | | |
| CRPS | 114,217 | 141,205 |
| ESOP | 7,333,740 | 5,637,970 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 178,500,801 | 158,366,521 |

| | CENTS | CENTS |
|---|---|---|
| Basic earnings per share | 29.52 | 37.11 |
| Diluted earnings per share | 28.54 | 35.99 |

At 30 June 2016, there were 181,527,335 ordinary shares (2015: 154,624,900) on issue and 101,627 convertible redeemable preference shares (2015: 137,027).

At 30 June 2016, there were nil unlisted ordinary share options (2015: nil). There were 5,662,333 employee share options outstanding (2015: 4,316,669), nil exercisable at $0.40 per share (2015: 1,416,667), 350,000 exercisable at $0.60 per share (2015: 1,375,002), 1,312,333 exercisable at $1.65 per share (2015: 1,525,000) and 4,000,000 exercisable at $2.92 per share (2015: nil).

### Note 7. Earnings per share (continued)

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Freedom Foods Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

#### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, as well as the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### Note 8. Current assets - trade and other receivables

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Trade receivables | 39,978 | 21,935 |
| Less: provision for impairment of receivables | (69) | - |
| | 39,909 | 21,935 |
| Other receivables | 5,752 | 3,368 |
| | 45,661 | 25,303 |

The average credit period on sale of goods is 39 days (2015: 45 days). No interest is charged on trade receivables. No allowance has been made for estimated irrecoverable trade receivable amounts arising from past sale of goods, determined by reference to past default experience. During the current financial year, the allowance for doubtful debts increased by $69,000 (2015: decreased by $59,000) in the Group. The allowance for doubtful debts/impaired trade receivables as at 30 June 2016 is $69,000 (2015: nil). The Group does not hold any collateral over these balances.

Customers with balances past due but without provision for impairment of receivables amount to $10,359,000 (2015: $2,228,000).

The current receivables for the Group have a weighted average of 35 days (2015: 33 days). Management considers that there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The past due but not impaired receivables for the Group have a weighted average of 77 days (2015: 33 days). These relate to a number of customers for whom there is no recent history of default and other indicators of impairment.

The Group does not have significant risk exposure to any one debtor; however 52% (2015: 56%) of sales and 46% (2015: 68%) of year end receivables are concentrated in major supermarkets throughout Australia.

### Note 9. Current assets - derivative financial instruments

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Forward foreign exchange contracts | 92 | - |

Refer to Note 25 for further information on financial instruments.

## Note 10. Current assets - inventories

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Raw materials - at cost | 26,921 | 10,436 |
| Finished goods - at cost | 19,242 | 14,039 |
| Less: provision for impairment | 50 | - |
| | 46,213 | 24,475 |

All inventories of the Group are expected to be recovered within a 12 month period.

The cost of inventories recognised as an expense during the year in respect of continuing operations was $119,763,486 (2015: $58,384,951).

### Significant accounting policies

Inventories are measured at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis.
- Manufactured finished goods: cost of direct materials, direct labour and an appropriate proportion of manufacturing variable and fixed overheads based on normal operating capacity but excluding borrowing costs.
- Purchased finished goods: purchase cost on a weighted average cost basis.
- Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## Note 11. Non-current assets - property, plant and equipment

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Freehold land - at independent valuation | 5,379 | 254 |
| Buildings - at independent valuation | 10,840 | 5,446 |
| Less: accumulated depreciation | (891) | - |
| | 9,949 | 5,446 |
| Plant and equipment - at cost | 126,392 | 64,150 |
| Less: accumulated depreciation | (31,746) | (16,643) |
| Add: capital work in progress - at cost | 114,212 | 50,154 |
| | 208,858 | 97,661 |
| Motor vehicles - under lease | 416 | 109 |
| Less: accumulated depreciation | (251) | (40) |
| | 165 | 69 |
| | 224,351 | 103,430 |

## Note 11. Non-current assets - property, plant and equipment (continued)

# Notes to the financial statements

## For the year ended 30 June 2016

Movements in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year:

| CONSOLIDATED | FREEHOLD LAND $'000 | BUILDINGS $'000 | PLANT & EQUIPMENT $'000 | MOTOR VEHICLES $'000 | TOTAL $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2014 | 254 | 4,102 | 50,712 | 9 | 55,077 |
| Additions* | - | - | 12,658 | 88 | 12,746 |
| Revaluation adjustment | - | 596 | - | - | 596 |
| Depreciation write back on revaluation | - | 869 | - | - | 869 |
| Additions through capital work in progress | - | - | 37,496 | - | 37,496 |
| Depreciation expense | - | (121) | (3,205) | (28) | (3,354) |
| Balance at 30 June 2015 | 254 | 5,446 | 97,661 | 69 | 103,430 |
| Additions* | 4,336 | 5 | 2,700 | 143 | 7,184 |
| Additions through business combinations (Note 36) | 789 | 4,829 | 50,517 | - | 56,135 |
| Additions through capital work in progress | - | - | 64,058 | - | 64,058 |
| Disposals | - | - | (17) | - | (17) |
| Depreciation expense | - | (331) | (6,061) | (47) | (6,439) |
| Balance at 30 June 2016 | 5,379 | 9,949 | 208,858 | 165 | 224,351 |

* *Included in additions is $949,000 (2015: $617,192) of capitalised interest.*

### Significant accounting policies

The Leeton site is carried at fair value as at 30 June 2016, less any subsequent accumulated depreciation. Fair value is determined on the basis of an independent valuation which is carried out regularly by an external valuation expert, based on discounted cash flows or capitalisation of net income, as appropriate.

Plant and equipment, motor vehicles and equipment under finance lease are stated at cost less accumulated depreciation and impairment.

Capital work in progress is stated at cost.

Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Accounting estimates

The following depreciation rates are used in the calculation of depreciation:

| | |
|---|---|
| Buildings | 2-6% |
| Plant and equipment | 4-25% |
| Leased plant and equipment | 4-20% |
| Motor vehicles | 15-33% |
| Leased motor vehicles | 15-33% |

## Note 12. Non-current assets - intangibles

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Goodwill* | 54,161 | 5,214 |
| Brand names | 16,274 | 16,274 |
| | 70,435 | 21,488 |

* *Goodwill increased by $48,947,000 due to acquisitions during the year. Refer to Note 36 for further details.*

### Significant accounting policies

Goodwill has been allocated for impairment testing purposes to the following cash generating units:

- Specialty Seafood
- Freedom Foods
- Popina Foods
- Pactum Dairy Group

The Consolidated Entity carries an amount of $16,274,000 for brand names with indefinite useful lives allocated between the Specialty Seafood and Freedom Foods cash generating units. The brand names relate to established major brands purchased as part of business combinations and are considered to be market leaders within their market segment. The brand names operate in a stable industry with a strong positioning in the consumer functional foods market. There was no goodwill associated to the Group's acquisition of Pactum Australia Pty Limited. Refer to Note 36 Business combinations, for the goodwill recognised on consolidation of PDG, Popina Foods and Darlington Point Mill after deducting deemed consideration from fair value of PDG's identifiable net liabilities.

The carrying amount of goodwill has been allocated to the identified cash-generating units as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Specialty Seafood | 1,982 | 1,982 |
| Freedom Foods | 3,232 | 3,232 |
| Popina Foods | 16,832 | - |
| Darlington Point Mill | 1,178 | - |
| Pactum Dairy Group | 30,937 | - |
| | 54,161 | 5,214 |

### Note 12. Non-current assets - intangibles (continued)

#### Accounting estimates

The recoverable amounts of the cash generating units are determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five year period, a terminal value and a discount rate range between 8.80% - 15.00% pa post tax and between 12.57% - 21.43% pa pre-tax (2015: 8.55% - 9.02% pa post tax and 12.21% - 12.85% pre-tax).

Key assumptions used in the value in use calculations for cash generating units are:

- Budgeted market share - average market share in the period immediately before the budget period plus a growth percentage of market share per year. Management believes that the planned market share growth per year for the next four years is reasonable.
- Budgeted gross margin - average gross margins achieved in the period immediately before the budget period is consistent with that used by management.

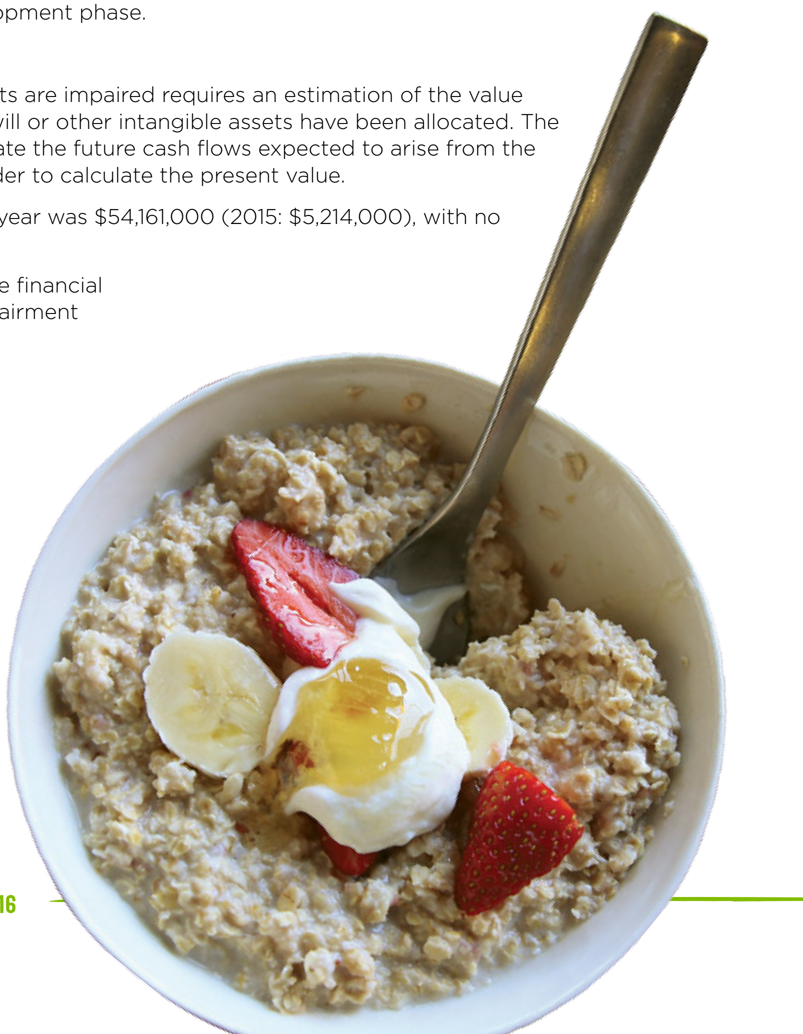
The recoverable amount for PDG, given its development nature, is determined using a fair value less costs to sell calculation which uses cash flow projections based on financial budgets approved by management covering a five year period and a terminal value. Cash flow projections during the budget period for the cash generating units are also based on the same expected gross margins during the budget period. The Group has used a discount rate of 12% pa post tax and 17.14% pa pre-tax. The discount rate is based on the weighted average cost of capital determined by prevailing or benchmarked market inputs and includes a risk premium considered appropriate to a newly established business in a development phase.

#### Impairment of goodwill and other intangible assets

Determining whether goodwill or other intangible assets are impaired requires an estimation of the value in use of the cash generating units to which the goodwill or other intangible assets have been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

The value of the goodwill as at the end of the financial year was $54,161,000 (2015: $5,214,000), with no impairment loss charged against goodwill.

The value of other intangible assets as at the end of the financial year was $16,274,000 (2015: $16,274,000), with no impairment loss charged against the other intangible assets.



## Note 13. Income tax expense

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| **Income tax expense** | | |
| Current tax | 10,170 | 4,357 |
| Adjustments recognised in the current year in relation to the current tax of prior years | - | 1,066 |
| Deferred tax expense/(income) relating to the origination and reversal of temporary differences | (3,687) | (74) |
| Aggregate income tax expense | 6,483 | 5,349 |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Profit before income tax expense | 57,114 | 61,980 |
| Tax at the statutory tax rate of 30% | 17,134 | 18,594 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Effect of revenue/expenses that are not deductible in determining taxable profit | (334) | 209 |
| Effect of tax concessions (research and development) | (50) | (50) |
| Tax impact on investment in a2MC | (4,264) | (14,470) |
| Fair value gain on conversion of options in PDG | (6,706) | - |
| | 5,780 | 4,283 |
| Franking deficit tax | 703 | 1,255 |
| Prior year research and development claim | - | (189) |
| Income tax expense | 6,483 | 5,349 |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| **Deferred tax balances** | | |
| Deferred tax assets/(liabilities) comprises temporary differences attributable to: | | |
| Property, plant and equipment | (2,164) | (633) |
| Provisions | 1,158 | 605 |
| Other | 793 | (78) |
| Deferred tax assets related to recognised tax losses | 5,545 | - |
| Withholding tax paid | - | 38 |
| Investments | - | (2,717) |
| Finance facilities in PDG | (2,412) | - |
| Total deferred tax assets/(liabilities) | 2,920 | (2,785) |

### Note 13. Income tax expense (continued)

#### Significant accounting policies

The Company and its wholly-owned Australian subsidiaries have formed a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Freedom Foods Group Limited. Income tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Freedom Foods Group Limited and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

#### Current tax

Current tax is calculated as the expected amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting date.

#### Deferred tax

Deferred tax is accounted for on the basis of temporary differences between the tax base of an asset or liability and it's carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in branches and associates and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it's probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

## Note 14. Non-current assets/(liabilities) - deferred tax

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Deferred tax asset/(liability) | 2,920 | (2,785) |
| *Movements:* | | |
| Opening balance | (2,785) | 385 |
| Provisions | 553 | 82 |
| Doubtful debts | - | (18) |
| Property, plant and equipment | (1,531) | 384 |
| Other | 833 | 95 |
| Investments | 2,717 | (2,717) |
| Tax losses recognised in PDG since 1 January 2016 | 75 | (996) |
| Deferred tax liabilities acquired | (2,412) | - |
| Deferred tax assets related to losses acquired | 5,470 | - |
| Closing balance | 2,920 | (2,785) |

## Note 15. Current liabilities - income tax

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Income tax payable attributable to: entities in the tax consolidated group | 11,568 | 8,316 |

## Note 16. Current liabilities - trade and other payables

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Trade payables | 36,316 | 14,724 |
| Other payables and accruals | 13,261 | 4,055 |
| | 49,577 | 18,779 |

Refer to Note 25 for further information on financial instruments.

*Amounts not expected to be settled within the next 12 months*

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Payables to related parties - refer Note 32 Related party transactions | 938 | 193 |

Trade payables are paid on average within 60 days of invoice date (2015: 60 days). No interest is charged on trade payables.

# Notes to the financial statements
## For the year ended 30 June 2016

### Note 17. Current liabilities - derivative financial instruments

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Forward foreign exchange contracts | 381 | - |

Refer to Note 25 for further information on financial instruments.

### Note 18. Equity - issued capital

| | CONSOLIDATED | | | |
|---|---|---|---|---|
| | 2016 SHARES | 2015 SHARES | 2016 $'000 | 2015 $'000 |
| Ordinary shares - fully paid | 181,527,335 | 154,624,900 | 169,090 | 98,995 |
| Convertible redeemable preference shares - fully paid | 101,627 | 137,027 | 16 | 33 |
| | 181,628,962 | 154,761,927 | 169,106 | 99,028 |

#### Movements in ordinary share capital

| DETAILS | DATE | SHARES | ISSUE PRICE | $'000 |
|---|---|---|---|---|
| Balance | 1 July 2014 | 150,645,371 | | 94,378 |
| Employee share options exercised | | 2,350,000 | $0.40 | 940 |
| Employee share options exercised | | 333,332 | $0.60 | 200 |
| Employee share options exercised | | 75,000 | $1.65 | 124 |
| Convertible redeemable preference shares (CRPS) conversions | | 15,100 | $0.30 | 5 |
| Dividend reinvestment plan (DRP) shares | | 604,193 | $2.85 | 1,717 |
| Dividend reinvestment plan (DRP) shares | | 601,904 | $2.83 | 1,705 |
| Transaction costs | | - | $0.00 | (74) |
| Balance | 30 June 2015 | 154,624,900 | | 98,995 |
| Employee share options exercised | | 1,416,667 | $0.40 | 567 |
| Employee share options exercised | | 1,025,002 | $0.60 | 615 |
| Employee share options exercised | | 144,333 | $1.65 | 238 |
| Convertible redeemable preference shares (CRPS) conversions | | 35,400 | $0.30 | 11 |
| Dividend reinvestment plan (DRP) shares | | 645,194 | $2.80 | 1,807 |
| Dividend reinvestment plan (DRP) shares | | 665,298 | $3.69 | 2,455 |
| Shares issued under the entitlement offer | | 22,970,541 | $2.85 | 65,466 |
| Transaction costs | | - | $0.00 | (1,064) |
| Balance | 30 June 2016 | 181,527,335 | | 169,090 |

### Movements in convertible redeemable preference shares

| DETAILS | DATE | SHARES | ISSUE PRICE | $'000 |
|---|---|---|---|---|
| Balance | 1 July 2014 | 152,127 | | 41 |
| Conversion to ordinary shares | | (15,100) | $0.30 | (5) |
| Transaction costs | | - | $0.00 | (3) |
| Balance | 30 June 2015 | 137,027 | | 33 |
| Conversion to ordinary shares | | (35,400) | $0.30 | (11) |
| Transaction costs | | - | $0.00 | (6) |
| Balance | 30 June 2016 | 101,627 | | 16 |

### Ordinary shares

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Changes to the then Corporation Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1988. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

The DRP provides shareholders with the opportunity to receive ordinary shares, in lieu of cash dividends, at a discount (set by the Directors) from the market price at the time of issue.

### Convertible redeemable preference shares (CRPS)

The CRPS are perpetual with no maturity, but redeemable after 3 years at the option of the Company. The CRPS are transferable and are convertible at the option of the CRPS holder. The dividend rate is 9.0% p.a. on the issue price of $0.30. It is a preferred, discretionary and non-cumulative dividend and CRPS holders have no claim or entitlement in respect of a non-payment.

Dividends are to be payable half-yearly in arrears. CRPS holders who convert their CRPS prior to a dividend payment date will not be entitled to any dividend for that part period in respect of that CRPS. However upon conversion to ordinary shares a holder who is on the register on the record date for a dividend payable in respect of ordinary shares will be entitled to the full ordinary dividend for that period. Dividends on the CRPS will be payable in April and November each year until converted or redeemed. CRPS holders are entitled to receive dividends in priority to holders of ordinary shares and equally with the holders of other CRPS that may be issued by Company on these terms.

CRPS are convertible into fully paid ordinary shares in the Company on the basis that each CRPS is convertible at the election of the CRPS holder into one ordinary share, subject to any restrictions imposed by the Corporations Act and ASX Listing Rules. There is no time limit within which CRPS must be converted. No additional consideration is payable on conversion.

Notwithstanding the right of holders of CRPS to convert at any time, all CRPS will convert into ordinary shares automatically on the occurrence of certain trigger events including certain transactions involving a change in control of Company, such as a takeover of Company or a scheme or merger between Company and another body.

### Note 18. Equity - issued capital (continued)

The Company may redeem the CRPS, 3 years from the date of issue of the CRPS, being 16 December 2013, at its option for the payment per CRPS of the higher of:

- the issue price of $0.30; and
- an amount determined by the Board of the Company with reference to the value of a CRPS as determined by an independent expert appointed by the Board.

The Company at this time has no plans to redeem the remaining CRPS still on issue due to the expense of the process of redemption being significantly more than the current value of the CRPS on issue.

#### Share options granted under the employee share option plan (ESOP)

For information relating to the Freedom Foods Group Limited ESOP, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year end, refer to Note 34.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

### Note 19. Equity - dividends

#### Dividends

Dividends paid during the financial year were as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Final fully franked dividend for the year ended 30 June 2015 of 1.50 cents (2014: 1.50 cents) per ordinary share | 515 | 556 |
| Dividends reinvested: fully franked at 30% tax rate | 1,807 | 1,718 |
| Interim fully franked dividend for the year ended 30 June 2016 of 1.75 cents (2015: 1.50 cents) per ordinary share | 688 | 595 |
| Dividends reinvested: fully franked at 30% tax rate | 2,455 | 1,705 |
| Final fully franked dividend for the year ended 30 June 2015 of 1.35 cents (2014: 1.35 cents) per convertible redeemable preference share | 1 | 2 |
| Interim fully franked dividend for the year ended 30 June 2016 of 1.35 cents (2015: 1.35 cents) per convertible redeemable preference share | 2 | 2 |
| | 5,468 | 4,578 |

On 31 August 2016, the Directors declared a fully franked final dividend of 2.25 cents per share to the holders of fully paid ordinary shares in respect of the financial year ending 30 June 2016, which is to be paid to shareholders on 30 November 2016. The record date for determining the entitlement to the final dividend is 2 November 2016. The dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $4,084,000.

On 31 August 2016, the Directors declared a fully franked final dividend of 1.35 cents per share to the holders of the convertible redeemable preference shares in respect of the financial year ending 30 June 2016, which is to be paid to shareholders on 30 November 2016. The record date for determining the entitlement to the final dividend is 2 November 2016. The dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $1,372.

### Franking credits

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | - | - |
| Franking debits that will arise from the payment of dividends declared subsequent to the reporting date based on a tax rate of 30% | (1,225) | (696) |
| Net franking credits available based on a tax rate of 30% | (1,225) | (696) |

## Note 20. Equity - reserves

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Land and buildings revaluation reserve | 1,499 | 1,499 |
| Investment revaluation reserve | - | 5,841 |
| Foreign currency translation reserve | (468) | (189) |
| Equity-settled employee benefits reserve | 2,159 | 1,711 |
| Common control reserve | (5,464) | (5,464) |
| | (2,274) | 3,398 |

### Land and buildings revaluation reserve

The land and buildings revaluation reserve arises on the revaluation of land and buildings. Where a revalued land or building is sold that portion of the asset revaluation reserve which relates to the asset, and is effectively realised, is transferred directly to retained earnings.

### Investment revaluation reserve

The investment revaluation reserve is used to recognise increments and decrements in the fair value of the Group's investments in a2MC. This investment was disposed of during the year causing the reserve to be nil.

### Foreign currency translation reserve

The foreign currency translation reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

### Equity-settled employee benefits reserve

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the Employee Share Option Plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in Note 34 to the financial statements.

### Common control reserve

The common control reserve is used to account for acquisition of Pactum Australia by the Group. As a consequence, the difference between the fair value of the consideration paid and the existing book values of assets & liabilities of Pactum Australia has been debited to a common control reserve ($5,464,000). Upon disposal of all interests in Pactum Australia by the Group this reserve would be transferred to retained earnings.

# Notes to the financial statements
## For the year ended 30 June 2016

### Note 20. Equity - reserves (continued)
#### Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| CONSOLIDATED | LAND AND BUILDINGS REVALUATION RESERVE $'000 | INVESTMENT REVALUATION RESERVE $'000 | FOREIGN CURRENCY TRANSLATION RESERVE $'000 | EQUITY-SETTLED EMPLOYEE BENEFITS RESERVE $'000 | COMMON CONTROL RESERVE $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2014 | 473 | - | 4 | 1,351 | (5,464) | (3,636) |
| Land and building revaluation | 1,026 | - | - | - | - | 1,026 |
| Revaluation of a2MC investment | - | 5,841 | - | - | - | 5,841 |
| Foreign currency translation | - | - | (193) | - | - | (193) |
| Share-based payments | - | - | - | 360 | - | 360 |
| Balance at 30 June 2015 | 1,499 | 5,841 | (189) | 1,711 | (5,464) | 3,398 |
| Foreign currency translation | - | - | (279) | - | - | (279) |
| Fair value movement in a2MC investment, net of tax | - | 16,281 | - | - | - | 16,281 |
| Reclassification of profit or loss on disposal of a2MC investment | - | (22,122) | - | - | - | (22,122) |
| Share-based payments | - | - | - | 448 | - | 448 |
| Balance at 30 June 2016 | 1,499 | - | (468) | 2,159 | (5,464) | (2,274) |

### Note 21. Current assets - cash and cash equivalents

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Cash | 63,908 | 2,329 |

## Note 22. Reconciliation of profit after income tax to net cash from operating activities

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Profit after income tax expense for the year | 50,631 | 56,631 |
| Adjustments for: | | |
| Depreciation and amortisation | 6,439 | 3,354 |
| Foreign exchange differences | 13 | - |
| Fair value gain on conversion of options in PDG | (22,353) | - |
| Gain on sale of a2MC disposal | (24,529) | - |
| Business combination acquisition costs | 1,227 | - |
| Share-based payments | 448 | 360 |
| Interest received | - | (10) |
| Interest on associates loan | (567) | (1,086) |
| Interest capitalised | (949) | (617) |
| Share of loss/(profit) of associates | (372) | 42 |
| Fair value gain on a2MC | - | (53,148) |
| Movement for provision in employee entitlements | 1,703 | (429) |
| Movements in working capital: | | |
| Increase in trade and other receivables | (20,358) | (5,727) |
| Increase in inventories | (21,738) | (5,508) |
| Decrease in deferred tax assets | - | 3,170 |
| Decrease in other operating assets | 647 | 95 |
| Increase in trade and other payables | 31,454 | 4,749 |
| Increase in provision for income tax | 3,252 | 4,161 |
| Increase in other operating liabilities | 745 | - |
| Net cash from operating activities | 5,693 | 6,037 |

Details of credit standby arrangements available and unused loan facilities are shown in Note 24 to the financial statements.

### Non-cash financing and investing activities

In accordance with the Company's DRP, $4,262,530 was reinvested in the year to 30 June 2016 (2015: $3,422,483).

### Note 23. Current liabilities - borrowings

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Loan payable | 18,082 | 5,698 |
| Finance facilities | - | 12,143 |
| Bank bill facilities | 9,100 | 1,650 |
| Equipment financing liabilities | 5,255 | 2,534 |
| | 32,437 | 22,025 |

Refer to Note 24 for further information on assets pledged as security and financing arrangements.

Refer to Note 25 for further information on financial instruments.

### Note 24. Non-current liabilities - borrowings

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Loan payable | 3,023 | - |
| Bank bill facilities | 37,529 | 16,500 |
| Equipment financing liabilities | 30,841 | 14,390 |
| | 71,393 | 30,890 |

Refer to Note 25 for further information on financial instruments.

#### Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Loan payable | 21,105 | 5,698 |
| Finance facilities | - | 12,143 |
| Bank bill facilities | 46,629 | 18,150 |
| Equipment financing liabilities | 36,096 | 16,924 |
| | 103,830 | 52,915 |

#### Assets pledged as security

The Company's primary bank facilities are arranged with HSBC Bank Australia Limited with general terms and conditions. The facilities include debtor finance, trade finance and other term facilities. The bank facilities with HSBC are secured by a first equitable mortgage over the whole of the Group's assets and undertakings (including uncalled capital), (except items specifically discharged under equipment finance arrangements for assets held at Leeton, Dandenong and Taren Point facilities), and a first registered mortgage over the Group's Leeton and Ingleburn properties.

The equipment finance facilities relate to:

1. specific equipment operating at the Company's Leeton, Dandenong and Taren Point facilities, arranged with both National Australia Bank and Westpac. These facilities are secured over the assets financed under the facility, which have been specifically discharged from the first registered mortgage held over the entire Group's property. The leases are over a period of 2 to 6 years and the final residual on the current leases will be due in 2020; and

2. specific equipment operating at the Pactum Dairy Group Shepparton facility, arranged with National Australia Bank. These facilities are secured over the assets financed under the facility, which have been specifically discharged from the first registered mortgage held over the entire Group's property. The leases are over a period of 5 years and the final residual on the current leases will be due in 2019;

Pactum Dairy Group has term facilities from National Australia Bank relating to trade finance and working capital requirements. These facilities are secured by a first equitable mortgage over the whole of Pactum Dairy Groups assets and undertakings (including uncalled capital), with guarantees provided by the shareholders of Pactum Dairy Group.

### Financing arrangements

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Total facilities | | |
| Loan payable | 35,500 | 9,700 |
| Finance facilities | 19,000 | 14,000 |
| Bank bill facilities | 47,400 | 18,150 |
| Equipment financing liabilities | 41,003 | 21,050 |
| | 142,903 | 62,900 |
| Used at the reporting date | | |
| Loan payable | 21,105 | 5,698 |
| Finance facilities | - | 12,143 |
| Bank bill facilities | 46,629 | 18,150 |
| Equipment financing liabilities | 36,096 | 16,924 |
| | 103,830 | 52,915 |
| Unused at the reporting date | | |
| Loan payable | 14,395 | 4,002 |
| Finance facilities | 19,000 | 1,857 |
| Bank bill facilities | 771 | - |
| Equipment financing liabilities | 4,907 | 4,126 |
| | 39,073 | 9,985 |

### Unused financing facilities

The Company given its significant cash position has reduced its drawdown of short term debtor finance and trade finance financing. Fixed financing relating to specific assets such as land and buildings has been maintained. The Company has unused bank facilities relating to bank bills, trade finance, working capital and equipment finance requirements totalling $39 million.

Interest rates are variable and subject to adjustment.

## Note 25. Financial instruments

### Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity balances.

The Group's overall strategy remains unchanged from 2015. The capital structure of the Group consists of debt, which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in their respective notes.

Operating cash flows are used to maintain and expand the Group's manufacturing and distribution assets, as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group's policy is to borrow centrally; using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

### Market risk

The Group's activities expose it primarily to the financial risk of changes in foreign currency exchange rates and interest rates. The Group enters into forward exchange contracts to manage exposure to foreign currency risk for its imports and exports. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

*Significant accounting polices*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

*Forward foreign exchange contracts*

The Group enters into forward foreign exchange contracts to buy specified amounts of foreign currencies in the future at stipulated exchange rates. The objective of entering into the forward exchange contracts is to protect the Group against unfavourable exchange rate movements for the contracted purchases and sales undertaken in foreign currencies.

The Group had entered into contracts (for terms not exceeding 12 months) to purchase finished goods from suppliers in the United States and Canada equipment from Europe and for sales receipts denominated in United States dollars from export customers. The contracts related to highly probable forecasted transactions for the purchase of inventory for the Specialty Seafood business (Salmon - USD and Sardines - CAD) and the Freedom Foods business (Spreads - USD and Almond paste - USD) with the purchase consideration being settled in the above currencies and on sales orders from export customers. The Group's objective in entering into forward foreign exchange contracts is to provide certainty to the income and cash flow implications for the designated foreign currency purchase, relating to purchase of inventory or other capital assets. The Group had USD 4,456,994 (Buy), USD 3,619,219 (Sell), CAD 377,640 (Buy) and EUR 4,130,144 (Buy) outstanding foreign exchange contracts as at 30 June 2016.

The Group does not adopt hedge accounting.

The following table details the forward foreign exchange contracts outstanding as at reporting date in Australian dollars:

| | SELL AUSTRALIAN DOLLARS | | AVERAGE EXCHANGE RATES | |
|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 | 2015 |
| **Buy US dollars** | | | | |
| Maturity: | | | | |
| 0 - 3 months | 5,513 | 1,252 | 0.7422 | 0.7777 |
| 3 - 6 months | 485 | - | 0.7294 | - |
| **Buy Canadian Dollars** | | | | |
| Maturity: | | | | |
| 0 - 3 months | 390 | 337 | 0.9678 | 0.9457 |
| **Buy Euros** | | | | |
| Maturity: | | | | |
| 0 - 3 months | 4,487 | 520 | 0.6389 | 0.6212 |
| 3 - 6 months | 1,838 | - | 0.6313 | - |
| 6 - 12 months | 158 | - | 0.6276 | - |

| | SELL US DOLLARS | | AVERAGE EXCHANGE RATES | |
|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 | 2015 |
| **Buy Australian dollars** | | | | |
| Maturity: | | | | |
| 0 - 3 months | 3,422 | 1,715 | 0.7380 | 0.8640 |
| 3 - 6 months | 197 | 906 | 0.7347 | 0.8401 |

The following table details the forward foreign exchange contracts at fair value as at reporting date in Australian dollars:

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Buy US dollars - less than 3 months | (65) | 17 |
| Buy CAD dollars - less than 3 months | 1 | (1) |
| Buy Euros - less than 3 months | (123) | (49) |
| Buy US dollars - 3-6 months | (20) | - |
| Buy Euros - 3-6 months | (90) | - |
| Buy Euros - 6-12 months | (9) | - |
| Sell US dollars - less than 3 months | 17 | (152) |
| Sell US dollars - 3-6 months | - | (162) |
| Net fair value | (289) | (347) |

### Note 25. Financial instruments (continued)

#### Foreign currency risk management

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows (in the respective foreign currency):

| | ASSETS | | LIABILITIES | |
|---|---|---|---|---|
| CONSOLIDATED | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| US dollar | 5,136 | 3,358 | 2,319 | 3,063 |
| Canadian dollar | 58 | 450 | 283 | 260 |
| Euro | - | - | 998 | 120 |
| New Zealand dollar | - | - | 94 | 10 |
| Chinese Yuan | 9 | 122 | - | - |
| | 5,203 | 3,930 | 3,694 | 3,453 |

There have been no changes to the Group's exposure to foreign currency risks or the manner in which it manages and measures the risks from the previous period.

#### Foreign currency sensitivity analysis

The following table details the sensitivity to an increase/decrease in the Australian dollar against the relevant currencies in relation to foreign exchange exposures. Sensitivity rates of 5% (USD), 5% (CAD), 4% (NZD), 3% (EUR) and 5% (CNY) have been used as these represent management's assessment of a likely maximum change in foreign exchange rates.

A positive number indicates an increase in profit where the Australia Dollar strengthens against the respective currency. For a weakening of the Australia Dollar against the respective currency there would be an equal and opposite impact on the profit and the balances below would be negative.

| CONSOLIDATED - 2016 | % CHANGE | AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX | EFFECT ON EQUITY | % CHANGE | AUD WEAKENED EFFECT ON PROFIT BEFORE TAX | EFFECT ON EQUITY |
|---|---|---|---|---|---|---|
| US dollar | 5% | (169) | 169 | 5% | 185 | (185) |
| Canadian dollar | 5% | 10 | (10) | 5% | (11) | 11 |
| New Zealand dollar | 4% | 4 | (4) | 4% | (4) | 4 |
| Euro | 3% | 52 | (52) | 3% | (55) | 55 |
| Chinese Yuan | 5% | - | - | 5% | - | - |
| | | (103) | 103 | | 115 | (115) |

| CONSOLIDATED - 2015 | % CHANGE | AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX | EFFECT ON EQUITY | % CHANGE | AUD WEAKENED EFFECT ON PROFIT BEFORE TAX | EFFECT ON EQUITY |
|---|---|---|---|---|---|---|
| US dollar | 10% | (57) | 57 | 10% | 69 | (69) |
| Canadian dollar | 3% | 2 | (2) | 3% | (2) | 2 |
| New Zealand dollar | 11% | 1 | (1) | 11% | (1) | 1 |
| Euro | 5% | 5 | (5) | 5% | (5) | 5 |
| Chinese Yuan | 6% | (1) | 1 | 6% | 2 | (2) |
| | | (50) | 50 | | 63 | (63) |

This is mainly attributable to the exposure outstanding on foreign currency receivables and payables at year end in the Consolidated Entity and the parent.

### Interest rate risk management

Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Group manages this risk by maintaining an appropriate mix between fixed and floating rate borrowings.

Exposures to interest rate risk, which is the risk that a financial instrument's value, its borrowing costs and interest income will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial instruments are set out below:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| CONSOLIDATED | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE % | BALANCE $'000 | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE % | BALANCE $'000 |
| Cash and cash equivalents | - | 63,908 | - | 2,329 |
| Loans due from related parties* | - | - | 8.00% | 14,836 |
| Loan payable | 4.10% | (67,734) | 4.77% | (23,848) |
| Finance facilities | - | - | 4.80% | (12,143) |
| Equipment financing facilities | 5.45% | (36,096) | 5.76% | (16,924) |
| | | (39,922) | | (35,750) |

* *Loans due from related parties are now owed by a subsidiary, refer to Note 36.*

During the financial year there has been no change to the Group's interest rate risk exposure or the manner in which it manages and measures risks.

### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the impact of 150 basis point increase in interest rates on exposure to interest rates as detailed in the above table.

The impact of a 150 basis point interest rate movement during the year with all other variables being held constant would be:

- an increase on the Consolidated Entity's net profit of $642,045 (2015: decrease of $116,340).

This is attributable to the Consolidated Entity's exposure to interest rates on its variable borrowings.

A 150 basis point movement represents management's assessment of the possible change in interest rates.

### Note 25. Financial instruments (continued)

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted the policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties.

Credit risk from balances with banks and financial institutions is managed in accordance with a Board approved policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board on an annual basis and may be updated throughout the year subject to approval of the Board. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at statement of financial position date, to recognised financial assets of the Group which have been recognised on the Statement of financial position is the carrying amount, net of any allowance for doubtful debts.

#### Liquidity risk management

Liquidity risk arises from the possibility that the Group may be unable to settle a transaction on the due date. The ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Included in Note 24 is a listing of additional undrawn facilities that the Company and the Consolidated Entity has at their disposal to further reduce liquidity risk.

Unused borrowing facilities at the reporting date:

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Loan payable | 14,395 | 4,002 |
| Finance facilities | 19,000 | 1,857 |
| Bank bill facilities | 771 | - |
| Equipment financing liabilities | 4,907 | 4,126 |
| | 39,073 | 9,985 |

The following table details the Consolidated Entity's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Consolidated Entity can be required to pay. The table includes both interest and principal cash flows.

| CONSOLIDATED - 2016 | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE % | LESS THAN 1 YEAR $'000 | BETWEEN 1 AND 5 YEARS $'000 | REMAINING CONTRACTUAL MATURITIES $'000 |
|---|---|---|---|---|
| **Non-derivatives** | | | | |
| *Non-interest bearing* | | | | |
| Trade payables | - | 41,030 | - | 41,030 |
| Other payables | - | 13,261 | 52 | 13,313 |
| *Interest-bearing - variable* | | | | |
| Loan payable | 4.80% | 18,082 | 3,023 | 21,105 |
| *Interest-bearing - fixed rate* | | | | |
| Bank bill facilities | 3.83% | 9,100 | 37,529 | 46,629 |
| Equipment financing liabilities | 5.45% | 6,970 | 34,055 | 41,025 |
| Total non-derivatives | | 88,443 | 74,659 | 163,102 |

| CONSOLIDATED - 2015 | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE % | LESS THAN 1 YEAR $'000 | BETWEEN 1 AND 5 YEARS $'000 | REMAINING CONTRACTUAL MATURITIES $'000 |
|---|---|---|---|---|
| **Non-derivatives** | | | | |
| *Non-interest bearing* | | | | |
| Trade payables | - | 14,724 | - | 14,724 |
| Other payables | - | 4,055 | 52 | 4,107 |
| *Interest-bearing - variable* | | | | |
| Loan payable | 5.29% | 5,698 | - | 5,698 |
| Finance facilities | 4.80% | 12,143 | - | 12,143 |
| *Interest-bearing - fixed rate* | | | | |
| Bank bill facilities | 4.61% | 1,650 | 16,500 | 18,150 |
| Equipment financing liabilities | 5.76% | 3,557 | 15,680 | 19,237 |
| Total non-derivatives | | 41,827 | 32,232 | 74,059 |

# Notes to the financial statements
## For the year ended 30 June 2016

### Note 25. Financial instruments (continued)

**Fair value of financial instruments**

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivatives instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including forward foreign exchange contracts. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group has not adopted hedge accounting during the financial year or previous corresponding period.

**Financial risk management objectives**

The Group's financial management team provides services to each of the group businesses, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, credit risk and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

**Gearing ratio**

| CONSOLIDATED | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Debt(i) | 103,830 | 52,915 |
| Cash and cash equivalents | (63,908) | (2,329) |
| Net debt | 39,922 | 50,586 |
| Equity(ii) | 287,818 | 185,929 |
| Net debt to equity ratio | 14% | 27% |

*(i) Debt is defined as long and short-term borrowings, as detailed in the notes to the financial statements.*
*(ii) Equity includes all capital and reserves.*

## Note 26. Capital and leasing commitments

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| **Lease commitments - operating** | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 803 | 746 |
| One to five years | 2,108 | 1,841 |
| More than five years | - | 834 |
| | 2,911 | 3,421 |
| **Lease commitments - finance** | | |
| Minimum future lease payments: | | |
| Within one year | 6,970 | 3,557 |
| One to five years | 34,055 | 15,680 |
| Total commitment | 41,025 | 19,237 |
| Less: Future finance charges | (4,929) | (2,313) |
| Net commitment recognised as liabilities | 36,096 | 16,924 |
| Representing: | | |
| Equipment financing liabilities - current (Note 23) | 5,255 | 2,534 |
| Equipment financing liabilities - non-current (Note 24) | 30,841 | 14,390 |
| | 36,096 | 16,924 |

# Notes to the financial statements
## For the year ended 30 June 2016

### Note 27. Interests in subsidiaries

The Consolidated Statement of profit or loss and other comprehensive income and Statement of financial position of the entities party to the deed of cross guarantee is the Consolidated Statement of profit or loss and other comprehensive income and Statement of financial position included in the 2016 financial statements.

| | | OWNERSHIP INTEREST | |
|---|---|---|---|
| NAME | PRINCIPAL PLACE OF BUSINESS/ COUNTRY OF INCORPORATION | 2016 % | 2015 % |
| Paramount Seafoods Pty Limited* | Australia | 100.00% | 100.00% |
| Freedom Foods Group Operations Pty Ltd (Formerly Nutrition Ventures Pty Limited)* | Australia | 100.00% | 100.00% |
| Nutrition Ventures Financing Pty Limited* | Australia | 100.00% | 100.00% |
| Freedom Foods Pty Limited* | Australia | 100.00% | 100.00% |
| Pactum Australia Pty Limited* | Australia | 100.00% | 100.00% |
| Pactum Dairy Group Pty Limited** | Australia | 50.00% | 1.00% |
| Australian Natural Foods Holdings Pty Limited* | Australia | 100.00% | 100.00% |
| Thorpedo Foods Group Pty Limited | Australia | 100.00% | 100.00% |
| Thorpedo Foods Pty Limited | Australia | 75.00% | 75.00% |
| Thorpedo Seafoods Pty Limited | Australia | 75.00% | 75.00% |
| Freedom Foods North America Inc | North America | 80.00% | 80.00% |
| Popina (Vic) Pty Limited* | Australia | 100.00% | - |

* *These companies are members of the tax consolidated group.*

** *The investment in Pactum Dairy Group Pty Limited by Pactum Australia Pty Limited changed from 1% to 50% on 1 January 2016. Refer to Note 36.*

### Note 28. Investments accounted for using the equity method

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the Group are set out below:

| | | OWNERSHIP INTEREST | |
|---|---|---|---|
| NAME | PRINCIPAL PLACE OF BUSINESS/ COUNTRY OF INCORPORATION | 2016 % | 2015 % |
| Pactum Dairy Group Pty Limited (PDG) | Australia | 50.00% | 1.00% |
| Australian Fresh Milk Holdings Pty Limited (AFMH) | Australia | 10.00% | - |

#### Pactum Dairy Group Pty Limited (PDG)

PDG was established in 2013 for the purpose of supplying high speed low cost liquid products to the domestic and international market. PDG is a joint venture between Pactum Australia Pty Limited, a wholly owned subsidiary of the Group and Australian Consolidated Milk Pty Limited (ACM), a major Australian dairy milk supply group.The facility was established in the northern Victorian city of Shepparton, for a total investment of approximately $45 million, with initial capacity for 100 million litres of dairy milk production, with capability to be increased up to 300 million litres in the longer term. The facility was completed over a construction period of approximately 9 months, with the project largely on budget. As at 31 December 2015, FNP equity accounted 1% of the loss in line with the ownership structure at that time. The Group converted its investment of convertible notes in January 2016 obtaining a 50% interest in PDG.

Under the guidance of AASB 10 Consolidated Financial Statements a conclusion was reached that control was deemed to be gained on 1 January 2016 by the Group over PDG. Subsequently, PDG will form part of the consolidated Group. Details on the business combination is outlined in Note 36.

### Australian Fresh Milk Holdings Pty Limited (AFMH)

The Group acquired 10% of the consortium Australian Fresh Milk Holdings Pty Limited (AFMH) on 17 June 2015, with 25% voting rights along with the two other shareholders, resulting in significant influence over AFMH. The consortium acquired Moxey Farms on 3 August 2015. Moxey Farms is one of Australia's largest single-site dairy operations. The consortium comprises Leppington Pastoral Company Pty Limited (LPC), New Hope Dairy Holdings Co Ltd (New Hope Dairy) and Freedom Foods Group Limited. The Group acquired its 10% of the consortium for $5.7 million.

The completion of the acquisition ensures AFMH has in place a scalable operating platform to invest in additional greenfield dairy sites, enabling the consortium to become a significant player in the Australian dairy industry.

### Summarised financial information

| | AFMH | | PDG | | A2MC | |
|---|---|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| **Summarised Statement of financial position** | | | | | | |
| Current assets | 29,494 | - | 16,426 | 4,184 | - | - |
| Non-current assets | 85,675 | - | 34,496 | 34,373 | - | - |
| Total assets | 115,169 | - | 50,922 | 38,557 | - | - |
| Current liabilities | 8,395 | - | 10,348 | 4,742 | - | - |
| Non-current liabilities | 49,824 | - | 61,403 | 41,045 | - | - |
| Total liabilities | 58,219 | - | 71,751 | 45,787 | - | - |
| Net assets/(liabilities) | 56,950 | - | (20,829) | (7,230) | - | - |
| **Summarised Statement of profit or loss and other comprehensive income** | | | | | | |
| Revenue | 37,521 | - | 27,763 | 48,779 | - | - |
| Expenses | (33,066) | - | (30,203) | (52,983) | - | - |
| Profit/(loss) before income tax | 4,455 | - | (2,440) | (4,204) | - | - |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | 4,455 | - | (2,440) | (4,204) | - | - |
| **Reconciliation of the Group's carrying amount** | | | | | | |
| Opening carrying amount | - | - | 4,432 | 4,474 | - | 10,587 |
| Share of profit/(loss) after income tax | 433 | - | (61) | (42) | - | - |
| Equity investment | 5,730 | - | - | - | - | 538 |
| Transfer to available-for-sale financial asset | - | - | - | - | - | (11,125) |
| De-recognition of investment and reclassification as subsidiary | - | - | (4,371) | - | - | - |
| Closing carrying amount | 6,163 | - | - | 4,432 | - | - |

Equity accounted gain for the year to 30 June 2016 was $372,000 (2015: $(42,000)).

## Note 28. Investments accounted for using the equity method (continued)

### Related party transactions

Current receivables and loans due from associates - refer to Note 32 to the financial statements.

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| PDG receivable | - | 1,700 |
| PDG loan | - | 13,136 |
| | - | 14,836 |

The loan to PDG attracts interest at 8% pa.

As at 1 January 2016, PDG was no longer deemed to be an associate to the Group, forming part of the consolidated Group.

The Group's interest in joint ventures represent jointly controlled entities which have been measured by applying the equity method of accounting. Under the equity method of accounting the carrying amounts of interests in joint venture entities are increased or decreased to recognise the Group's share of the post-acquisition profits or losses and other changes in net assets of the joint ventures.

## Note 29. Non-current assets - investment in a2MC

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Investment in The a2 Milk Company Limited | - | 72,618 |
| **Reconciliation** | | |
| Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below: | | |
| Opening fair value | 72,618 | - |
| Reclassification of investment | - | 11,125 |
| Gain on reclassification | - | 53,148 |
| Revaluation increments | 17,611 | 8,345 |
| Net proceeds on sale | (90,229) | - |
| Closing fair value | - | 72,618 |

The Group holds zero ordinary shares (2015: 117,699,229 17.8%) in The a2 Milk Company Limited (a2MC). The Group sold its remaining shareholding in a2MC in October and November 2015. The shares were sold at a price of $AU0.68 and $AU0.85 respectively, realising a gain after transaction costs of $24,529,000.

The Group reclassified the investment to an available for sale on 18 November 2014 following the resignation of Mr Perry R. Gunner from the board of a2MC at the conclusion of their AGM. Significant influence was deemed to be lost at the conclusion of the a2MC AGM and therefore on this date the Group reclassified the investment to an available for sale investment under the requirements of AASB 139 Financial Instruments: Recognition and Measurement.

## Note 30. Deed of cross guarantee

The following have entered into a deed of cross guarantee as a condition to obtaining relief under ASIC Class Order 98/1418 from the Corporations Act 2001 requirements to prepare and lodge audited financial statements and a Directors' report.

Freedom Foods Group Limited
Paramount Seafoods Pty Limited
Freedom Foods Group Operations Pty Ltd (Formerly Nutrition Ventures Pty Limited)
Nutrition Ventures Financing Pty Limited
Freedom Foods Pty Limited
Pactum Australia Pty Limited
Australian Natural Foods Holdings Pty Limited
Thorpedo Foods Group Pty Limited
Popina (Vic) Pty Limited

Each party to the deed of cross guarantee, guarantees to each creditor in the Group payment in full of any debt upon winding up under the provisions of the Corporations Act 2001 or, in any other case, if six months after a resolution or order for winding up, any debt of a creditor that has not been paid in full. The consolidated financial statements of the closed Group would not be materially different from the report of the Group as a whole. The main difference is the Freedom Foods North America result which is disclosed in Note 3 above.

## Note 31. Parent entity information

Set out below is the supplementary information about the parent entity.

### Statement of profit or loss and other comprehensive income

| | PARENT | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Profit after income tax | 17,996 | 48,406 |
| Other comprehensive income for the year, net of tax | - | - |
| Total comprehensive income | 17,996 | 48,406 |

### Statement of financial position

| | PARENT | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Total current assets | 1,355 | 626 |
| Total non-current assets | 247,714 | 174,310 |
| Total assets | 249,069 | 174,936 |
| Total non-current liabilities | (1,860) | 3,240 |
| Total liabilities | (1,860) | 3,240 |
| Net assets | 250,929 | 178,176 |
| Equity | | |
| Issued capital | 169,108 | 98,855 |
| Reserves | 3,186 | 8,578 |
| Retained Profits | 78,635 | 70,743 |
| Total equity | 250,929 | 178,176 |

# Notes to the financial statements
## For the year ended 30 June 2016

### Note 32. Related party transactions

**Subsidiaries**

Interests in subsidiaries are set out in Note 27.

**Associates**

Interests in associates are set out in Note 28 and Note 29.

**Key management personnel**

Disclosures relating to key management personnel are set out in Note 33 and the remuneration report included in the Directors' report.

**Transactions with related parties**

Other related parties include:

- entities with joint control or significant influence over the Group;
- joint ventures in which the entity was a venturer;
- subsidiaries; and
- other related parties.

The following transactions occurred with related parties:

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Sale of goods and services: | | |
| Sale of goods to subsidiaries | 23,158,133 | 19,665,000 |
| Sale of services to Pactum Dairy Group Pty Limited* | - | 500,000 |
| Payment for goods and services: | | |
| Purchase of goods from Australian Consolidated Milk Pty Limited | 39,541,637 | 2,045,000 |
| Purchase of goods and services from Leppington Pastoral Company | 1,352,000 | 410,000 |
| Payment for other expenses: | | |
| Payment for rent and outgoings under a lease commitment with Perich Property Holdings | 2,270,000 | 1,011,000 |

* *Pactum Dairy Group Pty Limited has been consolidated into the Group in 2016, refer to Note 36.*

These services are provided under normal terms and conditions.

### Note 33. Key management personnel disclosures

**Compensation**

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Short-term employee benefits | 1,321,307 | 1,528,014 |
| Post-employment benefits | 89,913 | 76,041 |
| Share-based payments | 448,216 | 152,361 |
| | 1,859,436 | 1,756,416 |

## Note 34. Share-based payments

Senior employees are eligible to participate in the share scheme under which executives are issued options to acquire shares in the Parent. Each employee share option converts into one ordinary share of the Parent on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. There are no vesting conditions attached to these options other than continuing employment within the Group with the exception to the performance based options detailed in the Directors' report.

The options granted below expire within five years of their issue, or one year after the resignation of the senior employee, whichever is the earlier. In relation to options issued during the financial year ended 30 June 2014, the options vest in three equal tranches over a period of 3 years.

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the financial year:

**2016**

| GRANT DATE | EXPIRY DATE | EXERCISE PRICE | BALANCE AT THE START OF THE YEAR | GRANTED | EXERCISED | EXPIRED/ FORFEITED/ LAPSED | BALANCE AT THE END OF THE YEAR |
|---|---|---|---|---|---|---|---|
| 01/02/2012 | 01/02/2017 | $0.40 | 1,416,667 | - | (1,416,667) | - | - |
| 30/08/2012 | 30/08/2017 | $0.60 | 1,375,002 | - | (1,025,002) | - | 350,000 |
| 01/07/2013 | 01/07/2018 | $1.65 | 1,525,000 | - | (144,333) | (68,334) | 1,312,333 |
| 01/07/2015 | 30/06/2020 | $2.92 | - | 4,000,000 | - | - | 4,000,000 |
| | | | 4,316,669 | 4,000,000 | (2,586,002) | (68,334) | 5,662,333 |
| Weighted average exercise price | | | $0.91 | $2.92 | $0.55 | $1.65 | $2.48 |

**2015**

| GRANT DATE | EXPIRY DATE | EXERCISE PRICE | BALANCE AT THE START OF THE YEAR | GRANTED | EXERCISED | EXPIRED/ FORFEITED/ LAPSED | BALANCE AT THE END OF THE YEAR |
|---|---|---|---|---|---|---|---|
| 01/02/2012 | 01/02/2017 | $0.40 | 3,766,667 | - | (2,350,000) | - | 1,416,667 |
| 30/08/2012 | 30/08/2017 | $0.60 | 1,708,334 | - | (333,332) | - | 1,375,002 |
| 01/07/2013 | 01/07/2018 | $1.65 | 1,600,000 | - | (75,000) | - | 1,525,000 |
| | | | 7,075,001 | - | (2,758,332) | - | 4,316,669 |
| Weighted average exercise price | | | $0.73 | $0.00 | $0.46 | $0.00 | $0.91 |

Set out below are the options exercisable at the end of the financial year:

| GRANT DATE | EXPIRY DATE | 2016 NUMBER | 2015 NUMBER |
|---|---|---|---|
| 01/02/2012 | 01/02/2017 | - | 1,416,667 |
| 30/08/2012 | 30/08/2017 | 350,000 | 641,669 |
| 01/07/2013 | 01/07/2018 | 779,000 | 458,333 |
| | | 1,129,000 | 2,516,669 |

The weighted average exercise price during the financial year was $0.55 (2015: $0.46).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.4 years (2015: 2.3 years).

### Note 34. Share-based payments (continued)

Expected volatility is based on historical share price volatility over the past two years. It is expected that options will be exercised only in the event of the market price exceeding the exercise price.

| GRANT DATE | EXPIRY DATE | SHARE PRICE AT GRANT DATE | EXERCISE PRICE | EXPECTED VOLATILITY | DIVIDEND YIELD | RISK-FREE INTEREST RATE | FAIR VALUE AT GRANT DATE |
|---|---|---|---|---|---|---|---|
| 02/02/2012 | 02/02/2017 | $0.46 | $0.40 | 20.00% | 2.50% | 5.00% | $0.122 |
| 30/08/2012 | 30/08/2017 | $0.65 | $0.60 | 5.00% | 2.50% | 5.00% | $0.066 |
| 01/07/2013 | 01/07/2018 | $1.80 | $1.65 | 5.00% | 2.50% | 5.00% | $0.181 |
| 01/07/2015 | 30/06/2020 | $2.94 | $2.92 | 50.00% | 0.49% | 2.25% | $1.195 |

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

### Note 35. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company:

| | CONSOLIDATED | |
|---|---|---|
| | 2016 $ | 2015 $ |
| **Audit services - Deloitte Touche Tohmatsu** | | |
| Audit or review of the financial statements | 406,550 | 260,000 |
| **Other services - Deloitte Touche Tohmatsu** | | |
| Other assurance services | 60,000 | 24,790 |
| Stamp duty advice | 23,500 | - |
| Research and development advice | 47,363 | 44,009 |
| Tax compliance services | 81,268 | 63,579 |
| Tax consulting services | 197,204 | - |
| | 409,335 | 132,378 |
| | 815,885 | 392,378 |

## Note 36. Business combinations

Over the course of the year, the Group acquired two businesses. Each acquisition was for 100% of the respective enterprises. Details of the businesses acquired as at the date of each acquisition were as follows:

On 1 December 2015, the Group acquired 100% of the ordinary shares of Popina (Vic) Pty Limited (Popina Foods) for the total consideration transferred of $35.6 million. Popina Foods is a major Australian manufacturer of oat based cereals and snacks. It is a recognised leader in cluster format cereal and snacks in Australasia, with manufacturing operations based in Dandenong, Victoria.

On 31 August 2015, the Group acquired the business and assets of Darlington Point Mill (DP Mill) based at Darlington Point in the Riverina District of New South Wales for a total consideration of $8.5 million. The DP Mill operates an established grain processing facility for the supply of milled flours and popping corn. It is a significant processor of popping corn in Australia and processes gluten free and non GMO grains. The DP Mill supplies customers in food service and processing markets in Australia as well as in export markets.

Details of the Popina Foods acquisition are as follows:

| | FAIR VALUE $'000 |
|---|---|
| Cash and cash equivalents | 471 |
| Trade receivables | 7,591 |
| Inventories | 5,807 |
| Property, plant and equipment | 16,911 |
| Other liabilities | (12,046) |
| Net assets acquired | 18,734 |
| Goodwill | 16,832 |
| Acquisition date fair value of the total consideration transferred | 35,566 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition date fair value of the total consideration transferred | 35,566 |
| Non cash consideration - lease refinance | (5,262) |
| Less: cash and cash equivalents | (471) |
| Net cash used | 29,833 |

Details of the DP Mill acquisition are as follows:

| | FAIR VALUE $'000 |
|---|---|
| Inventories | 2,652 |
| Property, plant and equipment | 4,670 |
| Net assets acquired | 7,322 |
| Goodwill | 1,178 |
| Acquisition date fair value of the total consideration transferred | 8,500 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition date fair value of the total consideration transferred | 8,500 |

### Note 36. Business combinations (continued)

On 1 January 2016, the Group elected to convert its convertible notes held in PDG into ordinary shares which resulted in the Group's interest in PDG increasing to 50%. The increase in equity holding along with additional factors, which occurred in January 2016, led to the reassessment of the accounting treatment for the Group's investment in PDG. After taking into consideration the guidance contained in AASB 10 Consolidated Financial Statements (AASB 10), the Group concluded that control was deemed to be gained on 1 January 2016. In reaching this conclusion, the Group considered its power to direct relevant activities under its Management Services Agreement with PDG along with the Group's provision of specialised knowledge in sales capability and infrastructure management, the Group's acquisition of additional processing equipment in January 2016 for PDG to meet demand, the provision of significant funding and acting as guarantor for PDG to secure additional financing in January 2016. Under AASB 10, from the date that control is obtained, the transaction is seen as a stepped acquisition achieved without the transfer of consideration.

Details of the PDG step acquisition are as follows:

| | FAIR VALUE $'000 |
|---|---|
| Cash and cash equivalents | 670 |
| Trade receivables | 9,307 |
| Inventories | 5,983 |
| Property, plant and equipment | 34,554 |
| Other assets | 3,564 |
| Other liabilities | (69,437) |
| Net liabilities acquired | (15,359) |
| Non-controlling interests share of net liabilities(1) | 7,679 |
| Previously held equity interest at fair value(2) | (456) |
| Goodwill | 30,937 |
| Acquisition-date fair value of the total consideration transferred | 22,801 |

(1) *The non-controlling interest in PDG has been determined using the proportionate share in the recognised amounts of the acquiree's identifiable net liabilities at 1 January 2016.*

(2) *The equity accounted investment in PDG was fair valued to $456,027 at 1 January 2016. The resulting gain on revaluation has been recognised in the Statement of profit or loss and other comprehensive income.*

In a business combination achieved without the transfer of consideration, goodwill is determined by using the acquisition date fair value of the acquirer's interest in the acquiree rather than the acquisition date fair value of the consideration transferred (Deemed Consideration). The key assumptions used in the discounted cash flow (DCF) include the achievement of cash flow projection during the budget based on financial budgets approved by management covering a five year period. In applying the DCF, the Group has used a discount rate of 12% pa post tax and a terminal growth rate of 2%. The discount rate is based on the weighted average cost of capital determined by prevailing or benchmarked market inputs and includes a risk premium considered appropriate to a newly established business in a development phase.

The consolidated revenue and profit before tax include $36,569,000 revenue and $398,000 profit before tax which was generated by PDG since control was achieved on 1 January 2016.

### Accounting policy for business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

## Note 37. Events after the reporting period

Apart from the dividend declared as disclosed in Note 19, no other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

# Directors' declaration

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 30 to the financial statements.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

| | |
|---|---|
| Perry R. Gunner<br>Chairman | Rory J.F. Macleod<br>Managing Director and Chief Executive Officer |

31 August 2016
Sydney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# Independent auditor's report to the members of Freedom Foods Group Limited

**Deloitte.**

Deloitte Touche Tohmatsu
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## Independent Auditor's Report to the Members of Freedom Foods Group Limited

**Report on the Financial Report**

We have audited the accompanying financial report of Freedom Foods Group Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 78 to 124.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In the basis of preparation, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

Deloitte.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Freedom Foods Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Opinion*

In our opinion:

(a) the financial report of Freedom Foods Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 65 to 72 of the Directors' re port for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Re muneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion the Remuneration Report of Freedom Foods Group Limited for the financial year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A. Coleman.

Andrew J Coleman
Partner
Chartered Accountants
Sydney, 31 August 2016

Liability limited by a scheme approved under Professional Standards Legislation.
A member of Deloitte Touche Tohmatsu Limited.

# Shareholder information

The shareholder information set out below was applicable as at 31 July 2016.

## Distribution of ordinary shareholders

| | NUMBER OF HOLDERS OF ORDINARY SHARES | NUMBER OF HOLDERS OF OPTIONS OVER ORDINARY SHARES |
|---|---|---|
| 1 to 1,000 | 1,518 | - |
| 1,001 to 5,000 | 1,519 | - |
| 5,001 to 10,000 | 357 | - |
| 10,001 to 100,000 | 354 | - |
| 100,001 and over | 12 | - |
| | 3,760 | - |
| Holding less than a marketable parcel | 208 | - |

## 20 largest shareholders as at 31 July 2016

Stock exchanges that have granted quotation to the securities of the Parent quoted in Australia:

All Member Exchanges.

## Ordinary shareholders

| | NUMBER HELD | % OF TOTAL ORDINARY SHARES ISSUED |
|---|---|---|
| 1. Arrovest Pty Limited | 99,107,422 | 54.60 |
| 2. RBC Investor Services Australia Nominees Pty Limited | 21,719,845 | 11.97 |
| 3. Citicorp Nominees Pty Limited | 5,621,336 | 3.10 |
| 4. J P Morgan Nominees Australia Limited | 5,106,959 | 2.81 |
| 5. HSBC Custody Nominees (Australia) Limited | 4,762,540 | 2.62 |
| 6. Australian Foundation Investment Company Limited | 4,506,585 | 2.48 |
| 7. National Nominees Limited | 3,829,228 | 2.11 |
| 8. Netwealth Investments Limited | 2,816,194 | 1.55 |
| 9. Mirrabooka Investments Limited | 1,946,612 | 1.07 |
| 10. BPC Custody Pty Ltd | 1,551,315 | 0.85 |
| 11. HSBC Custody Nominees (Australia) Limited | 1,400,678 | 0.77 |
| 12. BNP Paribas Nominees Pty Ltd | 1,287,238 | 0.71 |
| 13. Amcil Limited | 887,870 | 0.49 |
| 14. Mr Perry Richard Gunner & Mrs Felicity Jane Gunner | 800,395 | 0.44 |
| 15. Mr Michael Andris Bracka | 753,303 | 0.41 |
| 16. BNP Paribas Noms Pty Ltd | 574,626 | 0.32 |
| 17. UBS Nominess Pty Ltd | 616,348 | 0.34 |
| 18. Maynel Haddad | 583,333 | 0.32 |
| 19. Goldacre Investments Pty Limited | 568,466 | 0.31 |
| 20. RBC Investor Services Australia Nominees Pty Limited | 430,680 | 0.24 |
| | 158,870,973 | 87.51 |

## Convertible Redeemable Preference Share (CRPS) shareholders

| | NUMBER HELD | % OF TOTAL CRPS ISSUED |
|---|---|---|
| 1. R & M Gugliotta Pty Limited | 30,000 | 29.52 |
| 2. Lewis Little River Pty Limited | 23,438 | 23.06 |
| 3. Mr Hugh Middendorp & Mr Peter Charles | 16,664 | 16.40 |
| 4. Alan Ong Enterprises Pty Limited | 8,000 | 7.87 |
| 5. Est John William Hartigan & Mrs Enid May Hartigan | 5,000 | 4.92 |
| 6. Mr Craig Sargent | 3,394 | 3.34 |
| 7. GWG Investments Pty Limited | 3,125 | 3.07 |
| 8. Lokit Investments Pty Limited | 2,214 | 2.18 |
| 9. Mr Robert William Russell | 1,924 | 1.89 |
| 10. Mr Robert David Napier Nicholls | 1,736 | 1.71 |
| 11. Palatine Holdings Pty Limited | 1,697 | 1.67 |
| 12. Mr Gerald Millman | 1,000 | 0.98 |
| 13. Mr Tjeerd Veenstra & Mrs Susan Lesley Veenstra | 963 | 0.95 |
| 14. Mrs Michelle Louise Farrell | 640 | 0.63 |
| 15. Mr Andrew Jonathon Achilles | 500 | 0.49 |
| 16. Mr Stuart William McDonald | 497 | 0.49 |
| 17. Mr Neville Thiele | 273 | 0.27 |
| 18. Mrs Dianne Joan Thiele | 219 | 0.22 |
| 19. Mr Andrew Macfarlane | 200 | 0.20 |
| 20. Mr Kim Wigram Jones | 133 | 0.13 |
| | 101,617 | 99.99 |

## Distribution of CRPS shareholders

| | NUMBER OF HOLDERS OF CRPS SHARES |
|---|---|
| 1 to 1,000 | 10 |
| 1,001 to 5,000 | 7 |
| 5,001 to 10,000 | 1 |
| 10,001 to 100,000 | 3 |
| | 21 |

## Substantial shareholders

The number of shares held by substantial shareholders as listed in the Parent's register as at 31 July 2016 are:

| | ORDINARY SHARES | |
|---|---|---|
| | NUMBER HELD | % OF TOTAL SHARES ISSUED |
| Arrovest Pty Limited | 99,107,422 | 54.60 |
| RBC Investor Services Australia Nominees Pty Limited | 21,719,845 | 11.97 |
| Citicorp Nominees Pty Limited | 5,621,336 | 3.10 |

The Parent's listed ordinary shares are of one class with equal voting rights and all are quoted on a Member Exchange of the Australian Stock Exchange Limited (the home exchange being the Australian Stock Exchange (Sydney) Limited).

# Corporate directory

## Directors

Perry R. Gunner -
Chairman and Non-Executive Director

Rory J.F. Macleod -
Managing Director and Chief Executive Officer

Anthony M. Perich -
Non-Executive Director, Deputy Chairman

Ronald Perich - Non-Executive Director

Trevor J. Allen - Non-Executive Director

Melvyn Miles -
Non-Executive Director (Resigned 14th August 2015)

## Alternate Director

Michael R. Perich
(for Anthony M. Perich and Ronald Perich)

## Company Secretaries

Campbell Nicholas

Sharon Maguire - Assistant Company Secretary

## Notice of annual general meeting

The details of the Annual General Meeting of Freedom Foods Group Limited are:

24 November 2016 at 12:00 noon

DLA Piper Australia

Level 22, 1 Martin Place

Sydney NSW 2000

## Registered office

80 Box Road

Taren Point NSW 2229

Tel: +61 2 9526 2555

Fax: +61 2 9525 5406

## Principal place of business

80 Box Road

Taren Point NSW 2229

Tel: +61 2 9526 2555

Fax: +61 2 9525 5406

## Share register

Link Market Services Limited

Level 12, 680 George Street

Sydney NSW 2000

Tel: +61 2 8280 7111

Fax: +61 2 9287 0303

## Auditor

**Deloitte Touche Tohmatsu**

Grosvenor Place, 225 George Street

Sydney NSW 2000

Tel: +61 2 9237 1171

Fax: +61 2 9237 1400

## Solicitors

**DLA Piper**

Level 22, 1 Martin Place

Sydney NSW 2000

Tel: +61 2 9286 8000

Fax: +61 2 9286 8007

**Gilbert + Tobin**

2 Park Street

Sydney NSW 2000

Tel: +61 2 9263 4000

Fax: +61 2 9263 4111

## Bankers

**HSBC Australia Limited**

Level 32, 580 George Street

Sydney NSW 2000

Tel: +61 1300 308 188 (toll free)

Fax: +61 2 9255 2647

**National Australia Bank Limited**

Level 3, 255 George Street

Sydney NSW 2000

Tel: +61 2 9237 1171

Fax: +61 2 9237 1400

## Stock exchange listing

Freedom Foods Group Limited shares are listed on the Australian Securities Exchange (ASX code: FNP)

## Website

www.ffgl.com.au

## ABN

41 002 814 235

## Insurance Brokers

GSA Insurance Brokers Pty Ltd

'The Old Presbytery' 137 Harrington St

Sydney NSW 2000

Tel: +61 2 8274 8100

# MAKING FOOD BETTER