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28th February 2016

Freedom Foods Group Limited (ASX: FNP)
Half Year FY 2017 Financial Results

Freedom Foods Group Limited (**FNP** or the **Company** or the **Group**) has today released the Company's reviewed Half Year Results for the 6 month period ending 31 December 2016.

Operating Highlights

- A Company strategically well positioned to build scale in key food and beverage platforms with strong diversification in sales and earnings growth over the long term from key markets and channels in Australia/ NZ, China, South East Asia and North America.

Category Platforms
Plant Based Beverages
Dairy (Beverages and Nutritionals)
Specialty Cereal and Snacks

Markets
Australia, NZ,
China, South East Asia,
North America

Category Brands
Freedom Foods
Australia's Own

- A successful 6 month period investing in the Company's capabilities to deliver profitable growth consistent with its medium term plan, with reported net sales growth of 129%, reflecting:
  - Strong organic sales growth across all key category platforms in Australia/NZ, China, South East Asia and North America;
  - Strong growth in new value added Cereal and Snacks and Plant Based Beverages, including branded and non-branded sales in the growing Almond and value added plant milk categories;
  - Strong sales growth in new channels including Food Services in Australia and into South East Asia with plant milks and oat based cereals;
  - Acceleration of growth in sales dairy beverages, including our Australia's Own Kid's Milk in China, with the brand now the leading imported Kid's Milk brand in China where distributed;
  - Full 6 month sales and profit contribution from Darlington Point Mill, Dandenong cereals and bar operations and Shepparton Dairy Beverage operations;
  - Development of a strong pipeline of product innovation leading to further sales growth into calendar 2017; and
  - Net sales growth (adjusted for the impact of acquisitions from comparable periods) was 30.2% on the prior year period. Excluding Shepparton operations, net sales growth was 17.3%.

- Operating EBDITA of $13.0 million, an increase of 72% on the previous corresponding period, including increased contribution from Cereal and Snacks operations, Plant Based Beverages, a full 6 month contribution from Dandenong, Darlington Point and Shepparton operations, offset by a decrease in contribution from Specialty Seafood. Operating EBDITA growth (adjusted for the impact of acquisitions from comparable periods and excluding Shepparton contribution) was 29% on the prior year period.

- Execution of significant capital expenditure projects across the Group, including the nearly completed state-of-the-art UHT plant and dairy milk processing facility at Ingleburn in South West Sydney to drive material ongoing earnings benefits over the medium term.

- Strong growth in dairy beverage sales, with a significant turnaround in contribution from the Dairy operations at Shepparton, reflecting new contracts and increasing demand in Australia, China and South East Asia. The business was consolidated from 1 January 2016, following the Company converting its notes into shares.

- As a critical part of our long term dairy milk supply strategy, Australian Fresh Milk Holdings (**AFMH**), expanded what is Australia's largest single-site dairy operation from 3,500 to 5,500 milking cows. The business is profitable, is improving its profitability in line with its medium term plans and made a contribution to earnings in the period.

- Successful capital raising initiatives including an entitlements issue and placement in December 2016 to existing and new shareholders raising $75 million. The funds raised from the capital raising are being utilised in the funding of the Company's growth strategy including the acquisition of Australian Consolidated Milk's 50% interest in Pactum Dairy Group and other proposed acquisitions and investments as well as providing the Company with additional balance sheet flexibility for future growth opportunities.

Financial Summary

The Company reported an operating net profit of $5.3 million, an increase of 78% from the prior corresponding period.

The statutory net profit of $4.5 million, compared to $23.4 million in 1st half FY 2016 (which included the impact of pre-tax gain of $25.0 million arising from the sale of the investment in The a2 Milk Company (**a2MC**).

The income tax expense reflects an operating tax rate of approximately 27%, with an additional provision for franking deficit tax. This provision for franking deficit tax is expected to be reversed in the 2nd half once the Company has finalised tax returns for prior year periods. The prior year period return includes a tax provision for the a2MC share sales transactions.

The Company achieved an underlying Operating EBDITA of $13.0 million, 72% above the previous corresponding period. Operating EBDITA growth (adjusted for the impact of acquisitions from comparable periods and excluding Shepparton contribution) was 29% on the prior year period. Shepparton operations delivered an EBDITA of $2.5 million, a $5.3 million turnaround on comparable period EBDITA loss of $2.8 million.

Each of the business units achieved increased sales and operating EBDITA growth, with the exception of Specialty Seafood, which was impacted by a shortage in Sardines supply and unfavourable exchange rate on purchasing in Salmon and Sardines. Notwithstanding this, the business increased market share in Salmon and is trading ahead of plan.

The Cereal and Snacks operations delivered an increased operating earnings result, including a full contribution from the acquisition of the Darlington Point Mill and Dandenong 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 and logistics limitations which is impacting earnings. The new facility at Ingleburn, which will replace Taren Point progressively from May 2017 will materially reduce the cost of ongoing operations.

The Dairy operations at Shepparton achieved sales growth, reflecting new contracts and increasing demand in Australia, China and South East Asia. The operation reported a positive operating earnings contribution, reflecting increased sales and factory utilisation, although impacted by ineffiencies that will be overcome as the upgrades to processing capability and downstream packaging come on stream from June 2017.

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

6 Months to 31st December (A$ million)	2016	2015
Underlying Operating EBDITA (1)	**12,994**	**7,542**
Other costs not representing underlying performance (2)	**(309)**	**(2,415)**
Employee Share Option Expense (non cash)	**(224)**	**(180)**
Statutory EBDITA (1) (3)	**12,461**	**4,947**

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. *2016 other costs comprise once off acquisition costs, unrealised foreign exchange loss and a workers compensation settlement from a 2015 incident.*
3. *2015 Statutory EBDITA excludes gains from a2MC investment disposal.*

Year ended 31st December 2016 (A$ million)	Freedom Foods	Pactum Taren Point	Pactum Dairy Group	Specialty Seafood	Freedom Foods NA	Other	Total
Net Sales Revenue (1)	**58,672**	**32,099**	**40,761**	**6,480**	**1,136**	**(15,296)**	**123,852**
Trading EBDITA	**6,911**	**6,134**	**2,539**	**791**	**(465)**	**-**	**15,910**
Other Gains and Losses (2)	**-**	**-**	**-**	**-**	**-**	**(194)**	**(194)**
Equity Associates (3)	**-**	**-**	**-**	**-**	**-**	**240**	**240**
Corporate Costs (4)	**-**	**-**	**-**	**-**	**-**	**(3,495)**	**(3,495)**
Statutory EBDITA	**6,911**	**6,134**	**2,539**	**791**	**(465)**	**(3,449)**	**12,461**
Net Sales Change (YOY %)	**+ 87%**	**+ 21%**	**n/a**	**- 2%**	**+ 49%**	**+ 38%**	**+ 129%**
Net Sales Change (YOY $ million)	**+ 27,283**	**+ 5,643**	**+40,761**	**- 145**	**+ 372**	**- 4,179**	**+ 69,735**
Trading EBDITA Change (YOY %)	**+ 119%**	**+ 29%**	**n/a**	**- 25%**	**- 8%**	**n/a**	**+ 88%**
Trading EBDITA Change (YOY $ million)	**+ 3,752**	**+ 1,370**	**+2,539**	**- 259**	**+ 40**	**n/a**	**+ 7,442**
Trading EBDITA Margin (%)	**11.8%**	**19.1%**	**6.2%**	**12.2%**	**40.9%**	**n/a**	**12.8%**
Trading EBDITA Margin Prior Year (%)	**+ 1.7%**	**+ 1.1%**	**n/a**	**- 3.6%**	**+25.2%**	**n/a**	**- 2.8%**

Notes:

1. *Net Sales Revenue is after intercompany elimination of sales (total intercompany sales eliminated is $15.3m).*
2. *Other gains and losses relates to realised and unrealised exchange gains and losses.*
3. *Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group).*
4. *Corporate Costs includes non cash employee share option expense of $224k and acquisition costs of $31k.*

Summary Financials

6 Months to 31st December	2016	2015	
	$'000	$'000	% Change
Net Sales Revenue	123,852	54,117	+ 128.9%
EBDITA (Underlying Operating) (1)	12,994	7,542	+ 72.3%
EBDITA (Statutory)	12,461	4,947	+ 151.9%
Equity Associates Share of Profit (2)	240	192	+ 25.0%
Pre Tax Profit (Operating) (1)	7,277	3,826	+ 90.2%
Pre Tax Profit (Reported)	6,744	27,355	- 75.3%
Income Tax (Operating)	1,965	842	+ 133.4%
Net Profit (Operating) (3)	5,312	2,984	+ 78.0%
Net Profit (Reported) (3)	4,475	23,422	- 80.9%
Interim Ordinary Dividend (cps)	2.00	1.75	+ 14.3%
Interim CRPS Dividend (cps)	1.35	1.35	-
EPS (cents per share) (Fully Diluted for CRPS)	2.51	14.13	- 82.2%
EPS Operating (cents per share) (Fully Diluted)	4.58	2.51	+ 82.5%
Net Debt / Equity	9.2%	12.1%	
Net Assets per Share (cents)	179.3	149.0	
Net Tangible Assets per Share (cents)	143.1	127.2	

Notes:

1. *Underlying Operating EBDITA excludes pre-tax abnormal or non-operating charges including an add back of non cash employee share option expense of $224k. 2015 excluded gain on sale of a2MC investment.*
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 pre-tax abnormal or non-operating charges including an add back of non cash employee share option expense of $224k. 2015 excluded gain on sale of a2MC investment.*

Plant Based Beverages Business Group

Plant based (non dairy) volumes and sales 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 Plant Milk Beverages in Australia

Plant based branded beverage sales continued the upward trend from the 2016 financial year, with volume growth compared to the previous corresponding period, reflecting strong growth in the Australia's Own range and Blue Diamond Almond Breeze brand 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 continued to see growth including in Almond blends and fresh Almond beverages.

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

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

The Company launched a range of fresh organic Almond beverages under the Australia's Own Brand into retail grocery in November 2016. The launch is the Company's first activation into the chilled category and has performed ahead of expectations. Additional products will be launched into the chilled category through calendar 2017. The products were sourced from a contract manufacturer and will be manufactured at the Company's Ingleburn facility from 2018.

Further innovation in plant milk beverages including chilled beverages will be launched in 2017.

The increasing growth of food service channels (e.g. cafes and similar) and demand for plant based milks, consistent with the retail grocery trend, has seen increasing demand for coffee milk products. The Company's range of Barista blend brands including the premium "MilkLab" range, "Almond Breeze" Almond Barista and "So Natural" Barista Soy incorporate process technology to deliver a product that "works" with coffee. Further investment during the period in marketing and sales resources support resulted in strong growth in sales. The Company sees significant growth opportunity in the growing and higher margin food service channel.

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

Financial returns in the Almond portfolio continued to be impacted during the year by increased Almond inputs (reflecting exchange rate and market pricing). The reduction in market prices globally for Almond is expected to provide an improvement in financial returns as domestic supply of Almond paste becomes available for utilisation in the portfolio.

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

Leading producer 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.

Volumes for retailer and other branded products increased over the prior year period.

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

The current plant based non-dairy capabilities are constrained in both production and distribution at our Taren Point operation, restricting growth and financial returns. While sales and volumes are growing, the potential additional profit from growing volumes is impacted by increasing cost of plant reliability and outsourced distribution arrangements.

The Company is now close to completion on the construction of a new state-of-the-art UHT facility at a site in Ingleburn in South West Sydney. Equipment installation is now underway with commissioning commencing from April 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 will be approximately 100 million litres, from current capacity at Taren Point of approximately 50 million litres.

The Company will also install into the Ingleburn facility, 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 late 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 materially more efficient and lower cost production, warehousing and logistics solutions compared to current arrangements. This is expected to positively impact sales and earnings during FY 2018 with the full benefit from FY 2019.

As part of the transition from the Company's Taren Point facility to Ingleburn, the Company expects to incur one off costs of closure including write down of inventory on product formats to be discontinued, plant and equipment not utilised in the new facility as well as redundancies for staff not transferring. The costs are yet to be determined as the transition plan has not been finalised. The costs will be written off and classified as a non-operating expense in the FY 2017 full year financial reporting.

Dairy Beverage and Nutritionals Business Group

Branded Portfolio

Dairy based branded beverage sales continued the upward trend from the 2016 financial year with sales growth over the previous corresponding period, reflecting increased sales of Australia's Own Kid's Milk and the So Natural and Vitalife brands in domestic food service and export markets.

Australia's Own

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.

With significant ongoing marketing investment including point of sale promotion, sampling and sponsorship of leading children's TV programmes, the product has continued its strong growth trajectory, with the product now the largest imported Kid's Milk brand in China where it is distributed. The Kid's Milk product is utilising milk sourced from the Company's Australian Fresh Milk Holdings (**AFMH**) operation.

With demand now beyond current capacity, the Company is installing high speed 200ml capacity at the new Ingleburn site to be available from June 2017.

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

So Natural and Vitalife

Fastest growing dairy brands on online and offline channels in China

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. This has enabled the brand to establish a strong consumer franchise based on quality, price and delivery.

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

The So Natural brand has also developed a presence in the food services market in Australia, with new contracts in high volume food service segments gained in the period, including cruise ship and mining industries.

Shepparton UHT Operations

Largest supplier of Contract packed milk brands to China

The Shepparton operations commenced 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.

Dairy operations at Shepparton achieved sales in the 1st half of $41 million, an 85% increase on the prior corresponding period, 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. Some of this volume commenced in 2nd half of FY 2016, with the balance coming on stream late in 1st half of FY 2017.

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 the Company 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.

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 and capacity in Australia

To meet the increased demand for 1 Litre format from both domestic and export markets, the Company installed additional 1 Litre production capacity. This along with upgrades to processing capability and downstream packaging, will significantly improve efficiencies and provide for the operation to operate on a more efficient 24/6 production cycle from June 2017.

During the 2nd half, the Company invested in new capabilities to process and package value add milk derivatives including cream in UHT formats.

Total installed capacity is approximately 170 million litres or 355 million packs per annum.

The Company has ordered equipment for 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.

In January 2017, Freedom Foods has taken a long term lease (with purchase options) over the land and warehouse facilities adjacent to the UHT operation. The securing of these facilities will provide for internalising the expanding logistics and supply chain requirements, as well as providing a facility for the dairy nutritionals capabilities.

Completion of Acquisition of Australian Consolidated Milk's 50% interest in Pactum Dairy Group

As announced on 1 February 2017, the Company completed the acquisition of Australian Consolidated Milk's (**ACM**) 50% interest in Pactum Dairy Group (**PDG**), comprising the Shepparton operations.

PDG was formed as a joint venture between Pactum and ACM, a major Australian dairy milk supply group.

With expanding capabilities in dairy, a full integration of the PDG operations into Freedom Foods provides for a more integrated dairy processing platform into the future, with the potential for a significant increase in sales and earnings.

Freedom Foods acquired ACM's 50% interest in PDG for an equity consideration of A$50.7 million, comprising $50 million in cash and an issue of 168,538 shares in Freedom Foods at an issue price of $4.45 per share. The cash consideration was funded from proceeds of the equity raising completed in December 2016.

ACM will continue to be a key strategic supply partner for the long term, with the Company and ACM having entered into a 10 year supply agreement for dairy milk from existing ACM farmer suppliers in Northern Victoria.

Dairy Nutritionals

Nutritionals Platform

The Company is progressing installation of 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.

The Company expects 1st stage protein standardisation to be installed by June 2017, with capability to separate protein components from calendar 2018, with the potential for a material contribution to sales and earnings from FY 2019.

Acquisition of Sports and Adult Nutrition Brand Vital Strength

Freedom Foods has entered into binding acquisition documentation to acquire Power Foods International (**Power Foods**), an Australian based manufacturer and brand owner in the sports and adult nutrition category.

Power Foods owns the "Vital Strength" brand that markets a range of sports and adult nutrition products. The brand is recognised as a leader in high quality nutrition products, sold through retail grocery, pharmacy and fitness retailers in Australia.

Power Foods manufactures all its protein powders at its own blending and packing facility in Sydney.

The proposed acquisition will enable Freedom Foods to expand its brand and category segment offering into the sports and adult nutrition market in Australia, China and South East Asia, leveraging existing retail customer and distribution capabilities. Importantly, it will provide a unique vertical integration to the Company's expanding dairy nutritional capabilities.

Power Foods has strong distribution into retail pharmacy chains which provides an opportunity for Freedom Foods to expand distribution of its expanding product range into this growing channel.

The business is expected to benefit from product development opportunities sourced from the Company's capabilities in snack food and beverage manufacturing. The Company in collaboration with Power Foods has secured retail distribution for an expanded range of sports nutrition snacks and beverages under the "Vital Strength" brand to be introduced from June 2017. These products will be complementary to existing "Vital Strength" products and will be manufactured through Freedom Foods' operational capabilities.

The Company intends to market the "Vital Strength" range under its ecommerce platforms in China. It will also seek to utilise the Power Foods blending and packing capability to service a broader category including retailers and other brand owners.

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

The proposed acquisition is for a cash purchase consideration of approximately $20 million. The acquisition is expected to be accretive to earnings in its first full year of operation (FY 2018) and is expected to provide additional sales and operational efficiencies in the medium term.

The proposed acquisition is subject to customary documentation and closing requirements, with completion on 1 May 2017.

Establishment of Australia's Own Dairy Company China

As announced in December 2016, Freedom has entered into a memorandum of understanding with Shenzhen JiaLiLe Food Co. Ltd (**JLL**) to establish a new company called Australia's Own Dairy Company China (**AO China**). AO China will provide a stronger strategic link between the existing brand operations in China (sales, marketing, and distribution) and brand production in Australia (sourcing, processing, manufacturing). AO China will continue to grow Australia's Own branded Kid's Milk products in China, as well as developing plans for launch of other dairy products including Ambient Drinking Yogurt and Infant Formula products.

Freedom Foods will subscribe for an initial 10% investment in AO China for a consideration of RMB22 million (approximately AUD$4.3 million at current exchange rates). Freedom Foods will have an option to subscribe for up to 30% of AO China within 3 years from the date of the initial subscription.

It is intended that AO China would potentially seek a listing on an international stock exchange in the medium term. Finalisation of definitive documentation is expected to be completed by end of March 2017.

Dairy Supply - Australian Fresh Milk Holdings (AFMH)

Australia's largest dairy milking operation

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

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

Farm Expansion and New Sites

Australia's top dairy farm expanding from 75 million litres of milk pa, to 100 million litres pa by 2018

Since acquisition in 2015, Moxey Farms has expanded from 3,700 milking cows to 5,500 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. Total land under ownership and use is 2,100 hectares.

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. Additional milk output from Moxey Farms will also 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.

AFMH is now progressing an expansion to 7,000 milking cows or 100 million litres per annum.

As part of its expansion strategy, AFMH has also entered into agreements (subject to FIRB approval) to acquire the Bruem Dairy in the Lachlan Valley, 20km north of the Moxey Farm operation. The Bruem Dairy has land of 327 hectares, with 229 hectares under irrigation. The current dairy has 500 milking cows and will be expanded over the next 12 months to 1,000 milking cows. Bruem Dairy will be utilised as a specialty herd with potential to develop more specialised dairy milk streams. The acquisition price is $9 million and will be funded by equity contributions from shareholders, including $900,000 from the Company .

AFMH will continue to actively acquire additional dairy or farming 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 and Snacks Business Group

Building a global leader in Healthy Cereals and Snacks

Branded Portfolio

Australia

Number 1 Health Food cereal brand and growing

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

During the period, the Company launched a brand marketing and promotional campaign with Australian icon, Jennifer Hawkins, as brand ambassador to showcase the brand and our mission of making food better. Jennifer Hawkins is a respected Australian role model and will assist in communicating to a wider audience the opportunities for eating healthier with Freedom Foods.

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.

Significant additional ranging of an expanded Crafted Blends range launched late in the 1st half period, as the business delivered more innovation and product differentiation to the Health category. Growth in traditional format products following renovation, as well as stronger engagement with retailer customer saw the business grow its share of the Health Cereal category, with a +40% market share.

Since the relaunch of our "nut free" nutritional snack bar range in 2015, the business has continued to experience growth in both health and mainstream supermarkets channel, with additional ranging of an expanded "nut free" range occurring in the 1st half period.

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

Further innovation in value added cereals and snacks including products developed for on the go channels in food service and petrol and convenience will be launched in 2017.

The Freedom Foods business is 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.

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.

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.

Since the notable 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.

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.

The Company also continues to develop partnerships that build diversification of supply into the China market. In January 2017, the Company announced a partnership with Seamild Group, China's most respected and leading oat based cereal and foods brand owner and manufacturer.

Under the partnership agreement, Seamild and Freedom Foods will expand the range of Seamild branded oat based cereal products sourced directly from Australian manufacture. This will include value added oat cereals, oat cluster and oat based snacking products with the first of these additional products to launch in China in the 2nd half of the calendar year 2017. Seamild and Freedom Foods will also look to expand collaboration for marketing and distribution of Freedom Foods branded products into China as well as other potential strategic linkages in the future.

The agreement with Seamild is further recognition by leading Chinese food and beverage groups of Freedom Foods' unique sourcing, manufacturing and innovation capabilities in its expanding cereal, as well as dairy and plant based beverage operations.

North America

Top 10 specialty and natural cereal brand in the USA

Freedom Foods intends to restructure its business operations in North America to provide for an acceleration of its sales and earnings base.

Freedom Foods will establish a new North American entity in partnership with AFT Holdings, a Louisiana based investment and management group with offices in Louisiana and California supporting a number of unique holdings in the food space, including a leading shelf stable plant based protein producer. AFT Holdings also has investment in global fishing operations and other specialty food products. AFT and their companies have a history of growth thru sales execution and operational experience which compliments the vision of Freedom

Foods. The new entity will form part of the Specialty Cereal and Snacks Business Group with operations across Australia, China, South East Asia and North America.

Freedom Foods will have a majority equity ownership with rights to acquire AFT Holdings interest over a 3 to 5 year period.

Freedom Foods will not proceed with its previously announced intention to acquire a North American based natural food company following an inconclusive due diligence investigation.

Under the new ownership arrangements, Freedom Foods intends to expand its US based sales, marketing and distribution base to expand the offering of Freedom Foods branded products that go beyond the Allergen Free base and leveraging its unique global position in healthy cereals and snacks.

The introduction of a series of new 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.

In North America, the Company has 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 7,500 distribution points have been established by the end of January 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 2017 year.

As part of the strategy acceleration, the Company has already secured national ranging with a significant US retailer for its unique new cereal and bar offer developed in collaboration with CSIRO. This ranging across 1,500 stores will come online from June 2017 and provides a strong base for further growth. Additional business has also been secured in both branded and private label supply, with a leading private label retailer ranging a number of allergen free products, reflecting Freedom Foods unique capabilities.

The Group is investing in building a stronger local experienced team in sales, operations and finance. AFT Holdings will provide back office administrative resources.

Under the new ownership arrangements, the business will continue to evaluate options for increased scale in the North American market. As part of this, the Group is actively reviewing opportunities with other value added manufacturers in North America including specialist grain processors that will provide for a more integrated paddock to plate model in the medium term.

The new North American business structure is expected to be finalised within the current financial year. Based on developments to date and ongoing strategic initiatives, the Company expects the entity to be accretive to earnings in its first full year of operation in FY 2018, with additional sales and operational efficiencies in 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.

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.

Specialty Grains Milling

Largest supplier of specialty grains and popping corn in Australia with over 40% share

The Company operates an established grain processing facility at Darlington Point in the Riverina area in NSW for the supply of specialty 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.

In the last 12 months, 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. During the period, sub scale milling operations at Leeton were relocated to the Darlington Point Mill. In addition the relocation has freed up space at Leeton, providing for increased finished goods warehousing capabilities.

Freedom Farmers

Building a fully integrated paddock to plate provider

As part of ensuring best quality and growth in supply of key grains to our Freedom Foods 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 all its internal Oat requirements, comprising approximately 15,000 tonnes. Similar processes continued for Popping Corn, Maize and Buckwheat requirements.

Cereal and 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 committed to a significant expansion of cereal oven and related packaging capabilities at the Dandenong facility. The capacity expansion experienced supply delays during the period with commissioning now expected to commence in March 2017, with a contribution to sales and earnings from FY 2018.

Cereal and Snacks Outlook

The Cereal, Snacks and Milling business is now strategically positioned to become a major global player in healthy cereals and snacks with multiple products, channels and distribution across Australia/NZ, China and North America.

The Dandenong oats platform and the Darlington Point Mill has accelerated the business plan and provided 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 the medium term 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 Seafoods

Number 1 Sardine brand in Australasia

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

During the period, supply impacts from prior year were overcome with reactivation of sales promotions from August 2016. The Company intends to maintain a dual supply base for Atlantic sourced Sardines to reduce exposure to a single fishing area.

The Paramount Salmon brand performed well during the period, with strong growth in market share across red and pink salmon segments. Financial performance was impacted by unfavourable exchange rate on 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 2017 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 2017 inventory requirements through priority access to salmon and sardine catch volumes.

Corporate and Group Management

Talent and Technology

The Company continued to make investments in people and capability. During the period, we continued to invest in talent and capability in marketing and innovation across beverage, cereal and snacks capability as well as in quality 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. During the period, the Company appointed a Chief Financial Officer.

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, with the transition from a 1st generation platform to a new cloud based ERP system well progressed and expected to be materially completed by June 2017.

Capital Management

Capital Raising

The Company completed a capital raising in December 2016 that comprised a pro-rata accelerated non-renounceable entitlement offer and institutional placement.

The offer raised a total of $75 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 $4.45 per share, which represented a 5.9% discount to the volume weighted 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 Australian Consolidated Milk's 50% interest in Pactum Dairy Group, other proposed acquisitions and investments as well as providing the Company with additional balance sheet flexibility for future growth opportunities including the capital expenditure initiatives which are ongoing in relation to product and capability expansion at our Shepparton, Ingleburn and Dandenong facilities.

Cash and Liquidity

The Company held cash of $72.7 million at 31st December 2016, with total borrowings of $105.1 million, comprising term facilities, equipment finance leases and working capital facilities. Net debt at 31st December 2016 was $32.4 million, with a net debt to equity ratio of 9.2%.

Cash flow from operations was $9.1 million, an increase of $7.6 million from prior year period, reflecting improved cash generation, notwithstanding sales increase impacts on inventory build reflecting the changing mix of business and new product launches.

During the period, the Company invested $58.2 million in capital expenditure (relating to new facilities being constructed at Ingleburn and capital expenditure on plant and equipment at Shepparton, Dandenong, Leeton and Darlington Point operations) which was funded by cash.

Dividends

Consistent with the improved profitability and positive outlook for the Group's performance, the Company will pay an interim fully franked dividend of 2.00 cents per ordinary share in April 2017, an increase of 0.25 cents per ordinary share on the interim dividend paid in April 2016.

The record date for determining entitlements is 3rd April 2017 and the payment date is 28th April 2017.

Subject to an improving operating performance into 2017, as well as capital and liquidity requirements, the Company will consider an increase in the final dividend, compared to the prior year final dividend.

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 3rd April 2017 and the payment date is 28th April 2017.

There are 101,627 converting preference shares remaining on issue at 28th February 2017.

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.

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

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, particularly 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 fast approaching completion of our new plant and dairy based beverage capabilities at Ingleburn in Sydney 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 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 a large base of dairy volume established towards the end of calendar year 2016, the focus is on driving the business towards specialty and high value added products including cream and drinking yoghurt. The development of a specialised nutritionals platform at Shepparton during 2017/2018 aligned to the dairy UHT operations will provide for protein standardisation and the ability to separate milk into industrial grade pure protein components for use in Freedom Foods branded products and for sale to key strategic customers.

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

The announced acquisition in sports nutrition and acceleration of the North American platform will materially contribute to sales and earnings in the medium term. We will continue to evaluate acquisitions that add value to and significantly accelerate and or leverage our sales, marketing and operational platforms.

Our recent capital raising and increasing operational cashflows in future years, 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.

A strong start to the 2017 financial year in sales across all business areas will further accelerate into the 2nd half FY 2017, reflecting a stronger seasonal sales mix into the 2nd half period and ongoing organic growth.

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.

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