31st August 2017

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

Freedom Foods Group Limited (**FNP** or the **Company** or the **Group**) has today released the Company's Audited Full Year Results for the 12 month period ending 30th June 2017.

Highlights

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

- Operating EBDITA of $26.2 million, an increase of 22% on the previous corresponding period. Comparable Net Sales Revenues increased 54% to $262 million.

- A credible operating performance in a year of significant development for the Company, with the result impacted by a number of once off non recurring factors. These factors reflected principally the increased cost of manufacture at Taren Point site due to capacity limitations and downtime associated with major processing upgrades at Shepparton.

- Completion of approximately $130 million of major capital expenditure projects across the Group, including a new state-of-the-art UHT dairy and plant milk processing facility at Ingleburn in South West Sydney, which will drive material ongoing earnings benefits over the medium term. Examples of expansion include upgrades to dairy processing, standardisation and filling capability at the Shepparton UHT dairy milk facility, expanded oat cereal capabilities at the Dandenong cereal facility and major upgrades to the Company's technology platforms.

- Planned launches in FY 2017 of new product ranges were delayed by retailer timetables with a significant pipeline of new products introduced from August 2017.

- Overall a very successful 12 month period investing in the Company's sales and marketing capabilities to deliver profitable growth consistent with its medium term plan:
    - Continued transformation of a business driving growth through its icon brands, including Freedom Foods and Australia's Own;
    - Ongoing strong growth in Plant beverages, including branded and non-branded sales in the growing retail Almond milk categories;
    - Strong sales growth in new channels including Food Services in Australia with MilkLab and Almond Breeze Barista brands;
    - Acceleration of growth in sales of 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 it is distributed;
    - Growth in oat based cereals in branded offers in Australia and China led by Arnolds Farm; and
    - Ranging of a strong pipeline of differentiated product innovation across all key categories leading to further sales growth into 2018.

- Completion of the acquisition of Australian Consolidated Milk's 50% interest in Pactum Dairy Group at Shepparton, providing for a more integrated dairy processing platform, with the potential for a significant increase in sales and earnings over time.

- Acquisition of the "Vital Strength" Performance Nutrition brand to expand the Company's brand and category segment offering in the performance and adult nutrition markets, providing a unique vertical integration opportunity to the Company's expanding dairy nutritional capabilities.

- The Company is experiencing a strong start to the 2018 financial year, with net sales revenues estimated to be in the range of $340 to $360 million, as compared to $262 million in FY 2017.

Financial Summary

The Company achieved an underlying Operating EBDITA of $26.2 million, 22% above the previous corresponding period.

A credible operating performance in a year of significant development for the Company, with the result impacted by a number of once off non recurring factors. These factors reflected principally the increased cost of manufacture at Taren Point site due to capacity limitations and downtime associated with major processing upgrades at Shepparton.

The Company reported an operating net profit of $9.9 million, a decrease of 9.0% from the prior corresponding period, reflecting increased operating EBDITA, offset by higher depreciation and finance costs as compared to the prior year.

The statutory net profit was $7.5 million. Included in the statutory net profit result was costs not representing underlying performance including once off acquisition costs of $1.3m, unrealised foreign exchange loss of $444k and restructuring costs of $668k, including costs relating to discontinued operations realised in the year and workers compensation settlement from a 2015 incident.

In FY 2016, the statutory net profit was $50.6 million, but this included the impact of a pre-tax gain of $25.0 million arising from the sale of the final remaining investment in The a2 Milk Company (**a2MC**). The income tax expense reflects an operating tax rate of approximately 19.4%. The change in the effective tax rate from the prior year reflected an increased research and development claim. The prior year period tax rate includes the one off tax adjustment related to the a2 Milk Company share sales transactions.

Each of the business units increased gross margin $, with the exception of Specialty Seafood, which was impacted by an unfavorable exchange rate on purchasing in Salmon and Sardines. Notwithstanding, the business increased market share in Salmon and is trading ahead of plan. The integration of the Dandenong and Shepparton operations for the full year impacted gross margin % as compared to the prior year.

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

Plant beverages delivered increased sales, reflecting growth in retail and food service brands, 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 impacting the benefit expected to be incurred from increased sales. The new facility at Ingleburn, which will replace Taren Point during FY 2018, will materially reduce the cost of ongoing operations.

The Dairy operations at Shepparton achieved sales growth, reflecting new retail 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. During the period, the Company invested in additional 1 litre format capacity as well upgrading processing capability and downstream packaging. These investments which are critical to long term growth, impacted output during 2nd half of FY 17, with a consequent negative impact on manufacturing recoveries and margin.

Group Services costs increased during the year, reflecting investment in sales, marketing and finance resources necessary to manage the growth of the Company.

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

12 Months to 30th June (A$ million)	2017	2016	Movement
Underlying Operating EBDITA (1)	**26.2**	**21.5**	**+4.7**
Other costs not representing underlying performance (2)	**(2.4)**	**(2.2)**	**+0.2**
Employee Share Option Expense (non cash)(3)	**(0.4)**	**(0.4)**	**-**
Statutory EBDITA (4)	**23.3**	**18.8**	**+4.5**

Note:

1. *Operating EBDITA (Earnings before depreciation, interest, tax and amortisation) is a non-IFRS measure as contemplated in ASIC Regulatory Guide 230 Disclosing non-IFRS financial information (RG230). Operating EBDITA is used by management and the directors as the primary measures of assessing the financial performance of the Group and individual segments.*
2. *FY 2017 other costs not representing underlying performance comprise once off acquisition costs of $1.3m, unrealised foreign exchange loss of $444k and restructuring costs of $668k including costs relating to discontinued operations realised in the year and workers compensation settlement from a 2015 incident.*
3. *Non cash employee share option expense of $448k* in FY 2017.
4. *During the year, a change to the Company's trading structure and resulting accounting treatment changed the process for transfer and realisation of profit in inventory held for sale between the Pactum and Freedom Foods entities. The impact of this change was a reduction in profit in finished good inventory being recognised at 30 June 2017 of $664k.*

Segment Financials

For the year ended 30th June 2017, the Company has presented the segment reporting consistent with its core business categories and management reporting basis effective from 1 July 2016. This has changed from the segments reported in FY 2016 and at the half year.

The changes in the composition of the reportable segments include:

- Freedom Foods entity is now classified as Cereals and Snacks with the transfer of retail branded plant beverage sales from Freedom Foods entity to Pactum entity.
- Pactum entity is now classified as Plant Beverages with the transfer of dairy beverage sales from Pactum entity to Dairy Beverages entity.
- Pactum Dairy Group entity is now classified as Dairy Beverages with the transfer of dairy beverage sales from Pactum entity to Dairy Beverages entity.
- Nutritionals is a new segment reporting, comprising the "Vital Strength" branded business and nutritionals products to be manufactured in future years.
- Specialty Seafood remains unchanged.

12 Months to 30 June 17 (A$ million)	Cereal Snacks	Plant	Dairy	Nutritionals	Seafood	Other	Total
Net Sales Revenue (1)	**92.2**	**82.6**	**94.1**	**1.8**	**13.8**	**(21.9)**	**262.5**
Trading EBDITA	**10.7**	**12.8**	**7.4**	**0.5**	**1.9**		**33.3**
Other Gains and Losses						**0.2**	**0.2**
Equity Associates (2)						**0.5**	**0.5**
Corporate Costs (3)						**(7.7)**	**(7.7)**
Operating EBDITA	**10.7**	**12.8**	**7.4**	**0.5**	**1.9**	**(7.1)**	**26.2**
Net Sales Change (YOY %)	**+66.4%**	**-3.1%**	**+131.9%**	**NA**	**+10.9%**		
Net Sales Change (YOY $ million)	**36.8**	**(2.6)**	**53.5**	**1.8**	**1.3**		

Note:

1. *Net Sales Revenue is after intercompany elimination of sales (Cereals and Snacking of $2.6m, Plant Based beverages of $18.4m and Dairy of $891k).*
2. *Equity Associates is share of NPAT of Australian Fresh Milk Holding (10% equity interest held by Freedom Foods Group).*
3. *Corporate costs exclude non cash employee share option expenses of $448k.*

12 Months to 30 June 2017	2017	2016	
	$'000	$'000	% Change
Net Sales Revenue	262,481	170,444	+ 54.0%
EBDITA (Underlying Operating) (1)	26,240	21,526	+ 21.9%
EBDITA (Statutory)	23,375	18,926	+ 23.5%
Equity Associates Share of Profit (2)	480	372	+ 29.0%
Pre Tax Profit (Operating)	12,213	13,691	- 10.8%
Pre Tax Profit (Reported)	9,348	57,114	- 83.6%
Income Tax (Operating)	2,363	2,873	-17.7%
Net Profit (Operating)	9,850	10,818	- 9.0%
Net Profit (Reported)	7,539	50,631	- 85.1%
Interim Ordinary Dividend (cps)	2.25	2.25	-
Interim CRPS Dividend (cps)	1.35	1.35	-
EPS (cents per share) (Fully Diluted for CRPS)	4.78	28.54	- 83.3%
EPS Operating (cents per share) (Fully Diluted)	6.51	6.06	+ 7.5%
Shareholders Equity (3)	321.4	287.1	+12.0%
Net Debt / Equity (3)	56.3%	14%	
Net Assets per Share (cents)	160.0	158	
Net Tangible Assets per Share (cents)	109.0	119.8	

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 $448k. FY 2017 other costs not representing underlying performance comprising once off acquisition costs of $1.3m, unrealised foreign exchange loss of $444k and restructuring costs of $668k including costs relating to discontinued operations realised in the year and workers compensation settlement from a 2015 incident.*
2. *Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group).*
3. *Shareholders equity at year end of $321 million, reflected a debit to reserves of $54.1m. This related to the acquisition impact of acquiring the ACM shareholding in Pactum Dairy Group (PDG) in February for $47m. As PDG was an existing controlled entity of the Group, the accounting standards require the goodwill generated on acquisition to be debited against the common control reserve, with a consequent negative impact on equity.*

Plant Based Business Group

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

Strong Growth in Australia's Own, MilkLab and Blue Diamond Brands in Plant based beverages

Plant based branded beverage sales continued the upward trend from the 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 and food service 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.

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

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. The launch is the Company's first activation into the chilled category and has performed ahead of expectations. Additional products were launched recently into the chilled category. The products were sourced from a contract manufacturer and will be manufactured at the Company's Ingleburn facility during 2018.

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 incorporate process technology to deliver a product that "works" with coffee. Further investment during the period in marketing and sales resources support resulted in continued strong growth in sales.

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

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

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

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.

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 World Class UHT Facility at Ingleburn, South West Sydney

Largest investor in UHT technology and capacity in Australia

The current plant based non-dairy business has been constrained in both production and distribution at the Taren Point operation, restricting growth and financial returns in the 2017 financial year period.

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 plant has been operating at 7 days for the majority of the current year with significant cost associated with transport and logistics across more than 5 warehouse locations.

The Company has from August 2017 completed construction of a new state-of-the-art UHT facility at Ingleburn in South West Sydney. The transfer of operations to the Ingleburn site from our existing Taren Point operation is currently underway with all production expected to be transferred between September and October 2017.

1st stage installed UHT carton capacity will be approximately 80 million litres, from current capacity at Taren Point of approximately 50 million litres. Total liquids processing capacity is 180m litres, which is available to be developed as and when required as the infrastructure to support this expansion has been included in the building program to date.

The Company will also install a number of additional capabilities including yoghurt processing and a state-of-the-art PET plastic bottle capability for both long life (UHT) and short shelf life (ESL) formats.

The 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. The Company will look to utilise these capabilities for products in Australia including manufacture of plant based yoghurt products.

The PET bottle capability 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 sourced from our associated company, Australian Fresh Milk Holdings (AFMH[1]).

Installation of both capabilities will commence in January 2018, with a contribution to sales and earnings growth expected from FY 2019.

The facility will also be capable of processing dairy products to allow a two-way redundancy with the Shepparton facility, while providing the opportunity to expand the Company's base in dairy from multiple processing sites as required.

Our sales volume capacity in our branded products has been constrained by the capacity of our Taren Point operations. The new facility will provide the opportunity for the Company to expand its branded product sales, with a material expansion in capacity and efficiency improvements compared to current operations. These improvements include more efficient and lower cost production, warehousing and logistics solutions compared to current arrangements. This is expected to materially 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 transfer of operations from Taren Point has not been completed. The costs will be written off and classified as a non-operating expense in the FY 2018 full year financial reporting.

Dairy Business Group

Branded Portfolio

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

Australia's Own

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 Shenzhen JiaLiLe Food Co. Ltd (**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 AFMH.

The Company has been producing the Kid's Milk product from its Taren Point site with production limited by capacity of approximately 35 million packs per annum.

With demand now beyond current capacity, the Company has invested in high speed 200ml capacity to be available from late 2017, with volume to be in excess of 60 million packs in calendar 2018.

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[1] Freedom has a 10% shareholding in AFMH

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

Establishment of Australia's Own Dairy Company China

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

The new structure will provide a stronger strategic link between the existing 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 in 2018 and Infant Formula products under the Australia's Own brand.

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

The transaction is subject to regulatory approvals in China and expected to formally complete no later than 31 December 2017.

So Natural and Vitalife

Fastest growing dairy brands on online and offline channels in China

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

As well, the Company invested in additional sales capability to build sales for these brands in general trade ecommerce, reflecting its position as the primary growth channel for ecommerce in China. An example of recent success has been the So Natural brand being utilized in the Costa Coffee chain.

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 and Private Label milk in Australia

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 FY 2017 of $85.4 million, a 33.8% increase on the comparable 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 supplies a number of long term retail customers that provide a strong base of underlying volume and earnings support.

In China, the Company has continued key relationships with major dairy manufacturers and brand owners including 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 is complementary, enabling us to take advantage of the high level of regionalisation and diversification in local market distribution, product range and capability within this market.

In South East Asia, the Company has also developed other customer relationships in markets such as Hong Kong, Singapore, Philippines and Vietnam.

The Company expects further growth in retailer and other brand owner relationships in key markets in the coming years, reflecting growth in demand and changing competitor supply dynamics in Australia.

New Capacity

Largest investor in UHT technology and capacity in Australia

To meet the increased demand for UHT dairy milk and associated value added products, the Company invested in additional 1 litre format capacity as well upgrading processing capability and downstream packaging. These investments are critical to long term growth. Installation of the additional capacity impacted output during 2nd half of FY 2017, with a consequent negative impact on manufacturing recoveries and margin.

The installation, which is now complete, will provide for significantly improved output and for the operation to facilitate a more efficient 24/6 production cycle from August 2017.

Total installed capacity is approximately 180 million litres or 455 million packs per annum.

During the 2nd half of FY 2017, the Company entered into a long term lease (with purchase options) over the land and warehouse facilities adjacent to the UHT operation. The securing of these facilities has enabled us to internalise the expanding logistics and supply chain requirements, as well as providing a facility for the group's emerging nutritionals capabilities.

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

On 1st February 2017, the Company completed the acquisition of Australian Consolidated Milk's (**ACM**) 50% interest in Pactum Dairy Group (**PDG**), which is the holding company for the Shepparton operations.

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

As part of the new ownership arrangements, cream offtake will be managed directly by the Company, providing for a market based price to be realised from the commencement of FY 2018.

The Company acquired ACM's 50% interest in PDG for an equity consideration of A$50.7 million, comprising $50.1 million in cash and an issue of 168,538 shares in the Company at an issue price of $4.45 per share. The cash consideration was funded from the 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. To augment supply of dairy milk from ACM farmers, the Company has entered into supply arrangements with other dairy farmers in Northern Victoria and NSW.

Dairy Supply - AFMH

Australia's largest single site dairy milking operation

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

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

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

*S*ince acquisition in 2015, Moxey Farms has expanded from 3,700 milking cows to 6,000 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. Total land under ownership and use is 2,100 hectares.

AFMH is currently undertaking an expansion to 8,000 milking cows or 100 million litres per annum, as part of a 5 year plan to increase production up to 200m litres.

As part of its expansion strategy, the major shareholders in AFMH acquired a property 30km south of Moxey farms titled 'North Logan', which comprises 1,151 hectares of land and water entitlements. 'North Logan' is one of the largest aggregations of land available upstream of Moxey Farm on the Lachlan River with the potential to develop large scale irrigation.

The acquisition provides further capability to grow feed production capacity for the Moxey Farm expansion from 6,000 to 8,000 cows and potential development area for expanded dairy operations as part of the long term expansion to up to 200m litres.

During the year, AFMH acquired 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.

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.

The Company intends to utilise a growing proportion of this new output from Moxey Farm for its Australia's Own Kid's Milk and other dairy product formats.

The Company contributed $1.8 million to AFMH in the form of equity and loans as part of the shareholders contribution to the North Logan and Bruem dairy acquisitions.

Our total investment to date in AFMH is $7.6m.

Nutritionals Business Group

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

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

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

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

The 2nd stage protein fractionation and drying capability will be installed over the next 18 months, with a potential for a material contribution to sales and earnings during FY 2019.

Acquisition of Performance Nutrition Brand Vital Strength

In May 2017, the Company completed the acquisition of Power Foods International (**Power Foods**), a major Australian manufacturer and brand owner in the sports and adult nutrition category.

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

Power Foods manufactures all its protein powders at its own blending and packing facility in Marrickville, Sydney. The purchase price for Power Foods was a cash consideration of $21 million.

The acquisition of Power Foods will enable Freedom Foods to expand its brand and category segment offering into the performance 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 Company has developed a range of snacks and beverages to complement the existing Vital Strength range of protein powers and supplements. The new range builds on the Vital Strength brand proposition to deliver a higher protein serve per gram as compared to other competitor products, based on cleaner protein sources with fewer ingredients. The Company commenced retail distribution of this expanded range across key retail stores from August 2017.

The "Vital Strength" range will be sold through the Company's ecommerce platforms in China from November 2017.

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

Adult Nutrition

The Company is developing a range of Adult Nutrition products for launch during FY 2018.

The products will provide a clear functional benefit for the over 50 adult target market, including in powder and drinkable formats. The products will be distributed across the Company's expanding retail and pharmacy distribution capability.

Infant Nutrition

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

In June 2017, Australia's Own "Diamond" Infant Formula was launched with FairPrice retail chain in Singapore. Strong support to the launch from FairPrice and the Singapore government has seen good consumer response, with repeated orders since launch.

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

Blending and Packing Capabilities

Aligned to the Company's investment in value added protein capabilities, the Company is proposing to establish within the Shepparton site a blending and packing facility to package product formats in performance, adult and infant nutrition. This would include the relocation of existing performance nutrition blending and packing capabilities from Marrickville.

Aligned to these capabilities, the Company is discussing with one of its China based partners, a potential partnership in relation to the proposed infant manufacturing capabilities at site, which would seek to obtain registration with the China Food and Drug Administration (**CFDA**) for sale of these products to China.

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

Health Care Practitioner Network

To support the expanding nutritional product capabilities, the Company appointed Dr Sonja Kukuljan PhD as Group Nutrition Manager with responsibility for building a leading health care practitioner network in Australia, China and North America.

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 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 is assisting 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 in the medium term.

Significant additional ranging of an expanded Crafted Blends range launched late in the 1st half of FY 2017, as the business delivered more innovation and product differentiation to the Health category. Growth in traditional format products following product and format renovation, as well as stronger engagement with retailer customers, saw the business grow its share of the Health Cereal category, with a +40% market share.

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

Further innovation in value added cereals and snacks including products developed for on the go channels in food service were launched in August 2017. These include the Messy Monkeys kids snacking range, Barley + cereals and snacks and Crafted Blends snacks.

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

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 and South East Asia

Fastest growing Australian cereal brand on Alibaba's Tmall

In November 2015, Freedom Foods launched an online flagship store to promote the "Freedom Foods" branded product portfolio to Chinese consumers in cereal and milk products.

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

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

The Company believes its sourcing and conversion capabilities uniquely position it to build a significant branded business in high quality imported oat based Cereal and Snacks. As a result, the Company is increasing its investment in building distribution of its key brands including "Arnolds Farm" in traditional off line distribution channels in key tier 1 and tier 2 cities.

The Company also continues to develop strategic partnerships with Chinese brand owners that build diversification of supply into the China market including Pinlive, Seamild and VV Group.

North America

Emerging specialty food and beverage capability in the USA

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

Freedom Foods is establishing a North American entity in partnership with AFT Holdings to grow our North American business significantly faster than that which we could have achieved independently. AFT Holdings is a San Diego based investment group with operations in natural protein products and with strong sales and operations execution experience. The new entity will form part of the Specialty Cereal and Snacks Business Group. Freedom Foods will have a 75% equity ownership with rights to acquire AFT Holdings' interest over a 3 to 5 year period.

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

As part of this strategy, the Company launched the Barley + cereal range in 1,500 Kroger stores from July 2017.

Additional business has also been secured in both branded and private label supply, with a leading private label retailer ranging a number of cereal products later in 2017. The Company also intends to launch its Messy Monkey range, as well as its specialised MilkLab "coffee milk" offering in targeted cities in the USA.

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 strategic branded products in Australia, China and North America.

Freedom Farmers

Building a fully integrated paddock to plate provider

As part of ensuring best quality and growth in supply of key grains to our Freedom Foods 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 a high quality 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 year, the Company managed, for the first time, seed and planting processes under contract with its Freedom Farmers for all its internal Oat and Barley requirements. 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.

The Company completed a significant expansion of its cereal oven and related packaging capabilities at the Dandenong facility during the year. This critical expansion of capacity will provide for meeting the growing demands of existing customers and our branded portfolio in Australia, China and SE Asia.

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 has established 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 (20% at June 17 from 18.4% prior year) 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 a number of new products to be launched under the Brunswick brand.

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.

Innovation Capabilities

The Company has invested significantly in its innovation capabilities across its business groups, including appointment of product development personnel. This investment aligned to its significant capital investment in manufacturing capabilities provides a strong base to accelerate new product development pipelines.

A number of new products developed during FY 2017 have only recently been launched including 24 new branded sku's from August 2017.

Capital Expenditure

The Company has substantially completed a capital expenditure program of $250 million over the last 3 years. This has included construction of 2 greenfields sites at Shepparton and Ingleburn and incremental development of 2 other sites at Leeton and Dandenong.

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

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

Corporate and Group Management

Talent and Technology

The Company continued to make investments in people and capability to ensure the Company can implement and manage growth. During the period, we invested in talent and capability in marketing and innovation across beverage, cereal and snacks capability as well as operations, quality, 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. The Ingleburn site construction was managed by our own teams, with no external builders or project managers. This provided a significant time and cost saving to the Company.

We are developing our people and talent identification 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 materially completed by October 2017. Further investments in technology will be made to ensure we increase efficiency and productivity.

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 were utilised in the funding of the Company's growth strategy including the acquisition of Australian Consolidated Milk's 50% interest in Pactum Dairy Group, the acquisition of Power Foods 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.

Liquidity and Finance Facilities

The Company held cash of $4.2 million at 30th June 2017, with total borrowings of $185.2 million, comprising term facilities, equipment finance leases and working capital facilities. Net debt at 30th June 2017 was $181.0 million, with a net debt to equity ratio of 56.3%.

Cash flow from operations was $10.8 million, a decrease of $3.8 million from prior year period, reflecting increased working capital requirements.

During the 2nd half FY 2017, the Company funded a significant increase in working capital requirements for the transition of the Taren Point and Ingleburn sites, including raw materials, packaging, labour and associated costs. These transitionary working capital requirements are estimated to be in excess of $10 million and will reduce during 2nd quarter of FY 2018 as the Ingleburn site assumes full operation.

During the period, the Company invested $134.7 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 and finance facilities.

With a significant proportion of the Company's capital expenditure plan now complete, the Company is establishing with its long term banking partners a more flexible group finance and liquidity structure that will provide for the working capital and capital expenditure needs of the business from continued revenue growth. The term of a new secured bilateral and syndicated facility is expected to be 3 years and will be formally established prior to 31 December 2017. Reflecting the renegotiation timetable with our long term banking partners, the Company's balance sheet as at 30 June 2017 shows a larger proportion of the banking facilities as a current liability.

To provide ongoing balance sheet flexibility and to reduce any requirement for equity capital outside of a material acquisition initiative, the Company will enter into a sale and leaseback of its Ingleburn land and buildings for a net consideration of $75 million. Funds from the sale will provide flexibility to fund growth in working capital and capital expenditure over the coming 3 years.

The sale and leaseback will be with a subsidiary of the Perich Group. The Perich Group has a substantial industrial and retail property portfolio and a strong track record in being a long term stable property owner, which suits the objectives of the Company. The sale and leaseback will be for 20 + 10 years and has been negotiated on an arm's length basis. The transaction is expected to be completed on 30th November 2017, subject to shareholder approval at the Annual General Meeting.

Dividends

Consistent with the positive forward outlook for the Group's performance, the Company will pay a final fully franked dividend of 2.25 cents per ordinary share in November 2017, in line with the final dividend per ordinary share paid in November 2016. Allowing for the expanded share capital base following the December 2016 capital raising, the dividend will amount to $4.5m, compared to $4.1m in FY 2016.

The record date for determining entitlements is 2nd November 2017 and the payment date is 1st December 2017.

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 2017 and the payment date is 1st December 2017.

There are 101,627 converting preference shares remaining on issue at 30th June 2017.

Group Outlook

Building a Global Food and Beverage Business based in Australia

The Company is uniquely and 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 has created a unique supply and manufacturing footprint in its key categories. We believe the ability to control supply and manufacturing inputs and more quickly deliver innovation across a range of product formats for our brands and our key customers is a key strategic advantage in the medium to long term, particularly in value adding Australia's unique agricultural base. While this has required significant capital investment and patience, we will continue to invest to achieve this outcome.

The 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 other branded customer base.

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

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

Our capital raising, the sale and leaseback of Ingleburn and increasing operational cashflows in future years, along with support from our banking partners, provides a strong balance sheet capability to execute our strategy.

The Company is experiencing a strong start to the 2018 financial year, with net sales revenues estimated to be in the range of $340 to $360 million, as compared to $262 million in FY 2017.

We expect this and future year's sales increases to flow through positively to increased operating margins reflecting the ongoing benefits of the strategy and multi stage capital investment program with acceleration of profits and returns in FY 2018 and beyond.

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