AUSTRALIAN MADE CERTIFIED ORGANIC

BELLAMY'S ORGANIC

Interim Report

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018
ASX (APPENDIX 4D)

BELLAMY'S AUSTRALIA LIMITED
ABN 37 124 272 108

This report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A

BELLAMY'S AUSTRALIA LIMITED

Results for announcement to the market
for the half-year ended 31 December 2018

(Previous corresponding reporting period: half-year ended 31 December 2017)

Key Information

Key financial information	Half-year ended 31 December 2018	Half-year ended 31 December 2017	Period movement down
	$'000	$'000	%
Revenue	129,604	174,910	(25.9%)
EBITDA	13,982	34,855	(59.9%)
EBIT	11,217	32,721	(65.7%)
Profit before income tax expense	11,945	32,739	(63.5%)
Income tax expense	(3,807)	(10,333)	(63.2%)
Net profit after income tax expense	8,138	22,406	(63.7%)

Dividends	Franked amount per security
Interim dividend (current year)	$nil
Final dividend (prior year)	$nil
No dividend has been declared in respect of the current financial year.	

Net tangible assets backing	Half-year ended 31 December 2018	Half-year ended 31 December 2017	Period movement up/(down)
Basic earnings per share (cents)	7.2	21.5	(66.5%)
Diluted earnings per share (cents)	6.8	20.4	(66.7%)
Net Assets	218,049	184,190	18.4%
Net tangible assets	179,882	149,180	20.6%
Net assets per share (cents)	192.3	162.5	18.3%
Net tangible assets per share (cents)	158.7	131.6	20.6%

Definitions
Net tangible assets = total equity less goodwill and other intangible assets
Net tangible assets per share = total equity less goodwill and other intangible assets/shares on issue

Net tangible assets per share has increased over the period due to net profit after tax of $8.1m generated in 1H19. Over the period, Ordinary Shares on issue have increased by 52,193 to 113,368,297 (2017: 113,316,104).

Review of Operations

Bellamy's is a leading infant nutrition and food brand in Australia and China. The business continues to invest in this core platform and transform its business with a view to establishing a long-term platform for growth and profitability.

The 1H19 period was a continuation of this broader effort with a strong focus on developing a major rebrand and product upgrade recently launched in market. This upgrade aims to deliver a winning product for an already strong brand; integrating the best of nature and science including a world leading level of DHA (Omega) for an organic formula. It also sets the platform for a higher level of investment in China going forward including a stated plan to double Marketing spend and the China team over the 2H19 period.

The 1H19 group revenue result of $129.6m and normalised EBITDA result of $26.0m was materially below the prior year and has been impacted by a number of factors previously flagged to the market. This included a prolonged delay in SAMR registration impacting Chinese-label sales, the decision to run-down trade inventory prior to the Australia-label rebrand, and an observed slowdown in overall category performance.

The normalised EBITDA result excludes an additional one-off $12.0m inventory provision for the rebrand transition. The decision to accelerate the timing of the rebrand in the context of increased global competition in the organic segment and the need for a clean change-over increased the size of the provision. The Board and Management team view this as an important and long-term strategic investment in the brand and new product. All legacy product has now been provided for.

Full-year FY19 guidance has been revised to group revenue of $275-300m and an EBITDA margin of 18-22%. This change incorporates the final 1H19 result and reflects a stronger investment plan in China over the coming period.

The business retains high confidence in the rebrand, our new product pipeline, continued food growth and successful SAMR registration. Although we remain mindful of the inherent risks of our industry and markets, we strongly believe the medium-term outlook remains compelling, supported by category fundamentals, our differentiated position and an aggressive three-year growth strategy.

Financial Performance

The Company achieved revenue in 1H19 of $129.6m (1H18: $174.9m), and normalised EBITDA of $26.0m (1H18: $34.9m) and NPAT of $16.5m (1H18: $22.4m). On a statutory basis EBITDA was $14.0m and NPAT was $8.1m adjusted for a one-off $12.0m inventory provision for the recently launched rebrand and product upgrade.

Normalised financial performance compares to 1H18 in the table below:

Group	1H19			1H18		
$m	Statutory	One-offs(1)	Normalised	Statutory	One-offs(1)	Normalised
Aust. Label	127.7		127.7	151.9		151.9
China label	-		-	18.1		18.1
Camperdown	1.9		1.9	4.9		4.9
Revenue	129.6		129.6	174.9		174.9
Gross Profit	55.9		55.9	63.9		63.9
Gross Margin %	43.1%		43.1%	36.5%		36.5%
Other Income	0.1		0.1	0.1		0.1
Overhead	(42.0)	12.0	(30.0)	(29.1)		(29.1)
EBITDA	14.0	12.0	26.0	34.9		34.9
EBITDA %			20.0%			19.9%
Depn & Amortn	(2.8)		(2.8)	(2.1)		(2.1)
Interest	0.7		0.7	0.0		0.0
Tax	(3.8)	(3.6)	(7.4)	(10.3)		(10.3)
Net Profit After Tax	8.1	8.4	16.5	22.4		22.4
Net Profit %			12.7%			12.8%

(1) Bellamy's has followed the guidance for underlying profit as issued by the ASIC regulator Guide RG230 'Disclosing non-IFRS information'. The profit and loss summary with a prior period comparison in the table above, has been sourced from the accounts but has not been subject to separate review or audit. The Directors believe that the presentation of the unaudited non-IFRS profit and loss summary in the table above is useful for users as 1H19 includes significant items that are not expected to be repeated in future years. The table reflects the normalised earnings of the business.

Revenue and Profitability

Group revenue in 1H19 was $129.6m (1H18: $174.9m) and was impacted by a number of factors.

- SAMR Registration Delay:

  A continued delay in SAMR registration for the Camperdown facility impacted revenues by $18.1m versus the prior corresponding period with no Chinese-label sales in 1H19. Although we remain confident in our application, at this point we do not have any further update on the timing of approval.

- Trade Inventory Reduction:

  On 1 February 2019, Bellamy's relaunched its nutritionally enhanced formula products. The enhanced nutritional profile seeks to materially increase our addressable market with the introduction of DHA and other key functional ingredients. This launch will be supported by the largest marketing investment in the company's history, doubling marketing spend in 2H19 (vs 1H19) with key launch events beginning in March.

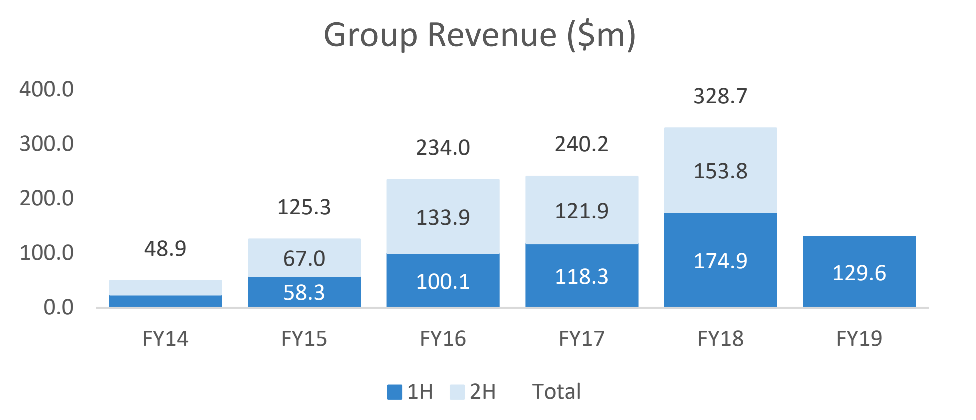
  Given the importance of the launch and size of investment, it was critical to set it up for maximum success including a clean trade transition and the removal of excess legacy inventory. As a result, trade inventory was reduced by an estimated $10m in 1H19 impacting Australian-label revenue.

- Market Factors:

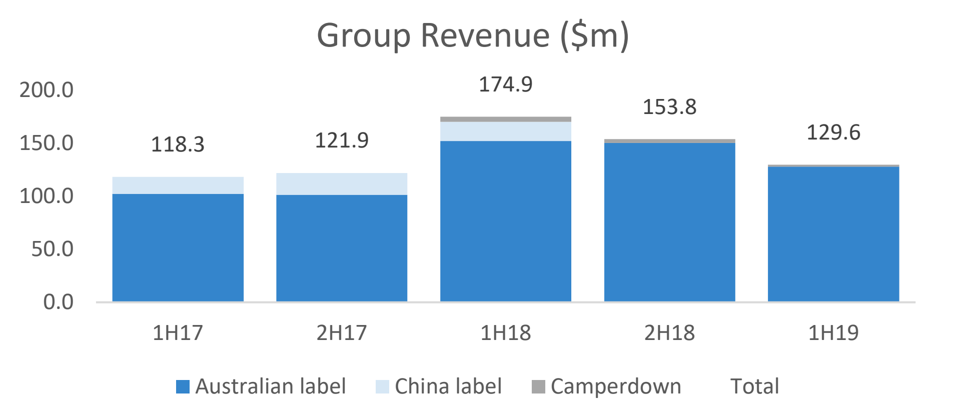
  In addition, revenues were impacted by market factors, including an observed slowdown in category growth and birth-rate in China and increased local supply from direct competitors in Australia.

- Camperdown External Orders:

  Group revenue was also $3.0m below 1H18 due to the timing of third-party orders at Camperdown. These sales are expected to return in 2H19 and full-year breakeven performance is anticipated.



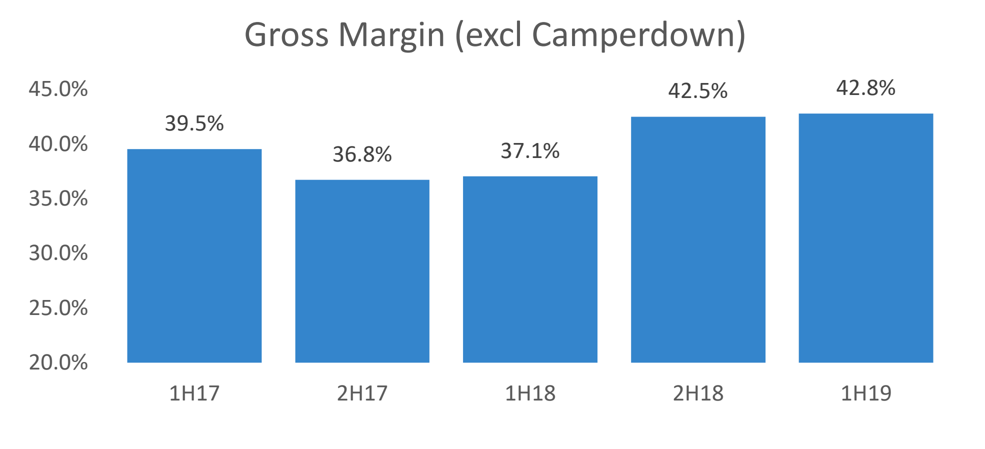
Group revenue in 1H19 was $129.6m (1H18: $174.9m) impacted by reduced Australian-label sales and no China-label sales.



Bellamy's Australian label revenue reduced 15.8% from 1H18 reflecting both a decision to reduce trade inventory in advance of the rebrand and an observed slowdown in overall category performance.

Gross margin of 42.8% was 5.7% points stronger than the prior corresponding period, and marginally above the 2H18 result. This improvement reflects strong revenue management disciplines and cost-of-goods and procurement savings.

Gross profit includes a $1.2m (1H18: $2.2m) charge for shortfall payments. It is not expected that the shortfall payments will vary significantly prior to the conclusion of a major manufacturing contract in late FY21.



Core business gross margin was 42.8% (1H18: 37.1%).

At an overall business unit level, Camperdown was impacted by the timing of third-party orders and the continued delay in SAMR registration. It is expected to breakeven for the full-year with known 2H19 orders.

Business Split

Normalised	1H19			1H18		
$m	Core	Camper -down[1]	Group	Core	Camper -down[1]	Group
Aust. Label	127.7		127.7	151.9		151.9
China label	-		-	18.1		18.1
Camperdown	-	1.9	1.9	-	4.9	4.9
Revenue	127.7	1.9	129.6	170.0	4.9	174.9
Gross Profit	54.6	1.3	55.9	63.0	0.9	63.9
Gross Margin %	42.8%	68.4%	43.1%	37.1%	17.9%	36.5%
Other Income	0.1	-	0.1	0.1	-	0.1
Direct Costs	(8.2)	(0.5)	(8.7)	(7.6)	(0.3)	(7.9)
Marketing	(6.8)	-	(6.8)	(6.4)	-	(6.4)
Manpower	(8.0)	(1.0)	(9.0)	(8.0)	(1.7)	(9.7)
Admin	(4.8)	(0.7)	(5.5)	(4.7)	(0.3)	(5.0)
Overhead	(27.8)	(2.2)	(30.0)	(26.7)	(2.3)	(29.0)
EBITDA	26.9	(0.9)	26.0	36.3	(1.4)	34.9
EBITDA %	21.1%		20.0%	21.4%		19.9%

(1) Expressed net of intercompany sales. Gross Profit benefits from an immaterial prior period adjustment.

Expenses

Normalised overhead was $30.0m (1H18: $29.0m) demonstrating continued control of back-office costs. On a statutory basis overhead increased to $42.0m, reflecting a one-off $12.0m inventory provision for the rebrand.

To enable a like-for-like analysis, the following commentary refers to comparative costs on a normalised basis and for the Core business excluding Camperdown:

- Direct Costs including logistics and warehousing costs increased $0.6m. On a percentage of revenue basis direct costs increased to 6.4% (1H18: 4.4%). This change was driven by a combination of reduced scale in the network, structural changes to the supply-chain in terms of ingredient procurement and a direct China logistics network, and the non-recurring cost of greater warehousing associated with the rebrand transition. It is estimated that direct costs will return to 5% of revenue adjusted for 1H19 factors.
- Marketing investment was $6.8m (1H18: $6.4m) and materially higher on a percentage of revenue basis than the prior period, falling in the target range of 5-6% of revenue. In 2H19 marketing will increase materially to support the rebrand, doubling marketing spend (against 1H19) with key launch events to begin in March.

- Employee costs of $8.0m (1H18: $8.0m) reflect the impact of a 13% increase (on 1H18) in headcount equally offset by savings in discretionary manpower costs. The investment in capability continues with a focus on China Sales and Marketing expertise and an expectation to double the China team in the coming period.
- Administration & Other was $4.8m (1H18: $4.8m) despite material increases in the cost of insurance. Insurance represented more than 25% of Administration costs in FY19 and there is an expectation of premium increases of between 25-50% in 2H19 in line with increasing market rates for indemnity products.

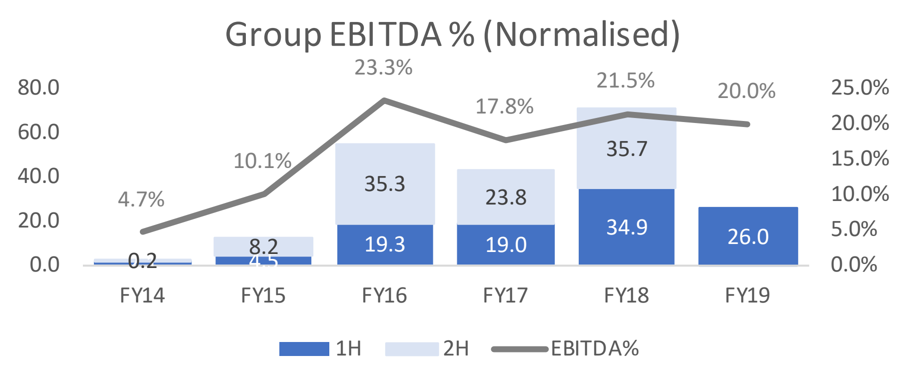
Inventory write-down and normalisation adjustment

The one-off normalisation adjustment relates to the write-down of legacy inventory that was produced in advance of changes to laws governing Country of Origin Labelling (COOL) in Australia and SAMR in China. The interaction of these legal changes and the long lead times to order ingredients and schedule production has resulted in reduced flexibility to manage the sell-out of legacy product.

The write-down in the period was $12.0m. The $18.0m provision for transition to the rebranded product that is compliant with COOL and SAMR, covers all unsold legacy domestic product and provides for the estimated cost to transition to any new Chinese label product.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

Total normalised EBITDA of 20.0% of Revenue (1H18: 19.9%) was largely in line with the prior corresponding period. Excluding Camperdown, Core business EBITDA was 21.1% of Revenue.



EBITDA ratio of 20.0% (1H18: 19.9%) reflects improvements in gross margin and overhead cost control, offset by higher direct costs and reduced scale in terms of Revenue.

Balance Sheet and Cash Flow

Cash at 31 December 2018 was $94.8m (Jun18: $87.6m). Cash conversion was impacted by a combination of structural changes and adverse timing variances in relations to key suppliers.

Bellamy's has progressively taken a more direct role in procuring ingredients to increase control of its supply chain. This strategy has required increased working capital investment and forms part of a broader strategy to increase competition and availability across the supply-chain. The net result has been reduced cost-of-goods and a significantly stronger ability to further scale the business.

Other working capital movements are considered timing related.

Inventory at 31 December 2018 was $61.0m (Jun18: $90.5m). The balance is stated net of provision of $20.6m (Jun18: $10.0m). The movement predominantly related to finished goods including the write-down. At 31 December 2018, finished goods represented approximately 2.3 months of sales.

Bellamy's retains a $40m debt facility which was not drawn on at 31 December 2018.

Manufacturing / Camperdown

Camperdown external revenue in 1H19 was $1.9m, down from $4.9m in the previous half (2H18). This is largely a timing issue and these sales are expected to return in 2H19.

Additionally, Camperdown had initially allocated production capacity to Bellamy's for its Chinese label product. When the licence was delayed, this production capacity was reallocated to Bellamy's Australia-label product; however, production time was lost due to changeover lead times.

Camperdown posted a net EBITDA loss of $0.9m for the half as a result of lower order and production volumes. Order volumes for both external revenue and Bellamy's Australia-label product are expected to increase in 2H19 and deliver a breakeven FY19 result.

Capital Expenditure

Per prior guidance, Camperdown remains a sub-scale facility and is not expected to contribute significant incremental profit to the Group business until the major capital upgrade is completed following SAMR approval and CNCA renewal.

The capital expansion plans are expected to cost $12-15m. These will likely take approximately 12 months to implement on approval given the lead-time on equipment and sequencing of the upgrade schedule.

The facility has sufficient production capacity to meet forecast demand of Chinese label product and third-party sales until the expansion is completed.

SAMR Brand Registrations

SAMR registration is required to sell Chinese label products in offline retail stores in China. The application for this licence was submitted by Camperdown for the Bellamy's brand in December 2017 and Bellamy's remain confident it will be achieved. However there is no further update on the specific timing of approval at this time.

Camperdown has already received SAMR registration for one other external customer and began manufacturing SAMR compliant product for this customer in 2H18.

Conditional Acquisition of remaining 10% Shareholding

Bellamy's will acquire the remaining 10% of Camperdown conditional on the success of the SAMR application. The transaction structure provides the vendors with continued financial exposure to the success of Bellamy's.

The strategic rationale behind the Camperdown acquisition was to provide a pathway to sell to stores in China post 1 January 2018. This strategic rationale remains intact.

Outlook

Given the further delay in SAMR registration it is now possible to guide to Group revenue. On the basis of the 1H19 result and early 2H19 trading Bellamy's updates its outlook to:

- Group revenue (including Camperdown) for FY19 of $275-300m, allowing for slower trading prior to rebrand and during the lunar new year holiday, and stronger traction from March.
- Normalised group EBITDA of 18%-22% of Revenue, reflecting the impact of scale and increased investment in marketing and the China team over the coming period.

The forecast is predicated on a successful launch of the rebranded product range from its official launch in March 2019. While the enhanced nutritional profile is expected to expand the addressable market for Bellamy's, the timing of sales recovery is difficult to predict and expected to gain traction over a 12-18 month period. Updates will be provided when additional information is known.

BELLAMY'S AUSTRALIA LIMITED

Consolidated interim report for the half-year ended 31 December 2018

CONTENTS

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Bellamy's Australia Limited during the interim financial reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Directors' Report

Your directors present their report on the consolidated entity consisting of Bellamy's Australia Limited and the entities it controlled ("the Company" or "Bellamy's") at the end of, or during, the half-year ended 31 December 2018 as follows:

Directors

The following persons were directors of Bellamy's Australia Limited during the whole of the half-year and up to the date of this report.

- John Ho (Chair)
- John Murphy (Deputy Chair)
- Wai-Chan Chan
- Rodd Peters
- Shirley Liew

Company overview

The Company offers a range of organic food and formula products for babies and toddlers. The Company's products are all Australian-made and certified organic.

The Company offers over 30 products that are tailored to the needs of babies and toddlers.

Review of Operations

The review of operations is set out on pages 2 to 6 of the Appendix 4D half-year report, together with the Company's half-year media release.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, related to the 'rounding off' of amounts in the directors' report and the financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that ASIC Instrument 2016/191, issued by the Australian Securities and Investments Commission.

This report is made in accordance with a resolution of directors.

John Ho

CHAIR

Melbourne, 26 February 2019

Auditor's Independence Declaration

pwc

Auditor's Independence Declaration

As lead auditor for the review of Bellamy's Australia Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Bellamy's Australia Limited and the entities it controlled during the period.

Alison Tait
Partner
PricewaterhouseCoopers

Melbourne
26 February 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2018

	Note	Half-year 31 December 2018 $'000	31 December 2017 $'000
Revenue		129,604	174,910
Cost of Sales		(73,669)	(111,054)
Gross Profit		55,935	63,856
Other income		66	122
Direct costs (distribution & other costs)		(20,744)	(7,890)
Employee costs		(8,977)	(9,700)
Marketing and innovation costs		(6,848)	(6,354)
Administrative and other costs		(5,450)	(5,179)
Earnings before net interest, tax, depreciation and amortisation (EBITDA)		**13,982**	**34,855**
Depreciation and amortisation		(2,765)	(2,134)
Earnings before net interest and tax (EBIT)		**11,217**	**32,721**
Net interest revenue/(expense)		728	18
Profit before income tax		**11,945**	**32,739**
Income tax expense	3	(3,807)	(10,333)
Net profit for the half-year		**8,138**	**22,406**
Other comprehensive income (net of tax)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising from translation of wholly owned foreign entities		369	365
Change in fair value of cash flow hedges		388	(29)
Total comprehensive income for the half-year		**8,895**	**22,742**
Total net profit attributable to:			
Non-controlling interest		(280)	(275)
Owners of Bellamy's Australia Limited		8,418	22,681
Net profit for the half-year		**8,138**	**22,406**
Total comprehensive income attributable to:			
Non-controlling interest		(280)	(275)
Owners of Bellamy's Australia Limited		9,175	23,017
Total comprehensive income for the half-year		**8,895**	**22,742**
Earnings per share			
Basic earnings per share (cents)		7.2	21.5
Diluted earnings per share (cents)		6.8	20.4

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2018

	Note	31 December 2018 $'000	30 June 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents		94,843	87,634
Trade and other receivables		54,318	49,317
Inventories	4	61,037	90,453
Current tax assets		1,593	-
Derivatives		61	-
Other assets		1,010	2,748
Total current assets		**212,862**	**230,153**
Non-current assets			
Property, plant & equipment		4,353	3,784
Intangible assets	8	38,167	40,079
Deferred tax assets (net)		6,663	6,798
Total non-current assets		**49,183**	**50,661**
Total assets		**262,045**	**280,812**
LIABILITIES			
Current liabilities			
Trade and other payables		40,874	69,108
Borrowings	7	66	62
Provisions		2,998	1,663
Derivatives		-	232
Current tax liabilities		-	2,344
Total current liabilities		**43,938**	**73,409**
Non-current liabilities			
Provisions		58	45
Total non-current liabilities		**58**	**45**
Total liabilities		**43,996**	**73,454**
Net assets		**218,049**	**207,358**
EQUITY			
Issued capital		120,870	120,870
Reserves		14,417	11,863
Retained profits		83,063	74,646
Total equity attributed to the owners of Bellamy's Australia Limited		**218,350**	**207,379**
Minority interest		(301)	(21)
Total equity		**218,049**	**207,358**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2018

	Note	Issued capital	Foreign currency translation reserve	Cash flow hedge reserve	Share based payment reserve	Retained earnings	Attributed to Owners of the Parent	Non-Controlling Interest	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018		120,870	23	21	11,820	74,645	207,379	(21)	207,358
Profit for the half-year		-	-	-	-	8,418	8,418	(280)	8,138
Other comprehensive income		-	369	388	-	-	757	-	757
Total comprehensive income		-	369	388	-	8,418	9,175	(280)	8,895
Issue of shares		-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-	-
Share based payments		-	-	-	1,796	-	1,796	-	1,796
Balance at 31 December 2018		120,870	392	409	13,616	83,063	218,350	(301)	218,049

	Note	Issued capital	Foreign currency translation reserve	Cash flow hedge reserve	Share based payment reserve	Retained earnings	Attributed to Owners of the Parent	Non-Controlling Interest	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2017		53,795	(820)	(25)	6,480	31,829	91,259	-	91,259
Profit for the half-year		-	-	-	-	22,681	22,681	(275)	22,406
Other comprehensive income		-	365	(29)	-	-	336	-	336
Total comprehensive income		-	365	(29)	-	22,681	23,017	(275)	22,742
Issue of shares		67,075	-	-	-	-	67,075	-	67,075
Dividends		-	-	-	-	-	-	-	-
Share based payments		-	-	-	3,114	-	3,114	-	3,114
Balance at 31 December 2017		120,870	(455)	(54)	9,594	54,510	184,465	(275)	184,190

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2018

	Half-year	
	31 December 2018 $'000	**31 December 2017 $'000**
Cash flows from operating activities		
Cash receipts from customers	124,670	166,862
Cash payments to suppliers and employees	(108,840)	(98,490)
Cash generated from operations	15,830	68,372
Interest received	603	-
Interest paid	-	(453)
Income taxes paid	(7,845)	(8,811)
Net cash inflow / (outflow) from operating activities	8,588	59,108
Cash flows from investing activities		
Proceeds sale property plant & equipment	-	47
Purchases of property plant & equipment	(1,068)	(806)
Purchases of intangible assets	(315)	-
Purchase of controlling interest in subsidiary	-	(10,453)
Net cash outflow from investing activities	(1,383)	(11,212)
Cash flows from financing activities		
Proceeds from share issue	-	44,877
Proceeds/(repayment) of borrowings	4	(25,236)
Dividends paid to Company's shareholders	-	-
Net cash inflow / (outflow) from financing activities	4	19,641
Net increase / (decrease) in cash equivalents	7,209	67,537
Cash and cash equivalents at the beginning of the half-year	87,634	17,479
Cash and cash equivalents at end of the half-year	94,843	85,016

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

Notes to the consolidated financial statements

1. Significant Items

	Half-year	
	31 December 2018 $'000	31 December 2017 $'000
Profit for the half-year includes the following items that are material due to the significance of their nature and/or amount:		
Included in direct costs		
Inventory provisions and write-offs	11,959	-
	11,959	-

2. Operating Segments

Description of segments

Operating segments are determined in accordance with AASB 8 Operating Segments. To identify the operating segments of the business, management has considered the business from both a geographical and functional perspective, as well as considering the way information is reported to management and the Board.

Operating Revenue is based on the geographical location of the retailer/reseller in respect of the direct sale by the Company to reflect how the business is managed. The three Operating Revenue segments are as follows:

i) Core Business including:

Australia Sales – revenues derived from sales to retailers and other resellers within Australia.
Overseas Sales – revenue derived from sales to distributors and online customers overseas.

ii) Australia Manufacturing – manufacturing of formula and other powders.

Senior management assess the profitability of the business based on a measure of underlying earnings before interest and tax (EBITDA) from the Core Business and the Manufacturing Segments. Australia and Overseas are consolidated at EBITDA level as they share many common costs. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and one-off items to ensure comparability of the underlying operating result. Interest income and expenditure are not allocated to segments.

Significant items relate to significant changes in the business during the past financial year and are identified due to their nature and magnitude on the assessment of segment performance. During the half year the significant item related to further inventory provisions for the impact of rebranding. These have been included as non-recurring and are excluded by management when assessing the underlying EBITDA of the segments There were no significant items in the half year to 31 December 2017.

Total assets and liabilities are measured in a manner consistent with that in the financial statements. These assets are allocated based on the operations of the segment and physical location of the asset. Assets and liabilities relating to Australian and overseas segments are also consolidated into Core Business, as receivables, accruals and payables relating to Overseas Sales are reported in the Australian entity.

The disclosure of the segments has been updated at the half year to allocate eliminations into the segments. The comparatives for 31 December 2017 and 30 June 2018 have been updated to reflect this change.

Segment financial information

31 December 2018	Australia Sales $'000	Overseas Sales $'000	Core Business $'000	Australia Manufacturing $'000	Group Total $'000
Segment revenue from external customers	100,537	27,167	127,704	1,900	129,604
Underlying segment EBITDA	21,828	8,642	30,470	(946)	29,524
Underlying segment EBITDA%	21.7%	31.8%			
Unallocated corporate costs			(3,583)	-	(3,583)
Segment EBITDA (1)			26,887	(946)	25,941
Segment EBITDA%			21.1%	(49.8%)	20.0%
Total segment assets			119,043	39,842	158,885
Total segment liabilities			36,596	6,777	43,373
Other disclosures					
Depreciation & amortisation			973	1,792	2,765

(1) Excluding significant items of $12.0m – refer note 1.

31 December 2017	Australia Sales $'000	Overseas Sales $'000	Core Business $'000	Australia Manufacturing $'000	Group Total $'000
Segment revenue from external customers	116,063	53,949	170,011	4,898	174,910
Underlying segment EBITDA	21,105	19,289	40,393	(1,450)	38,944
Underlying segment EBITDA%	18.2%	35.8%			
Unallocated corporate costs			(4,089)		(4,089)
Segment EBITDA			36,305	(1,450)	34,855
Segment EBITDA%			21.4%	(29.6)%	19.9%
Total segment assets – 30 June 2018			145,994	40,386	186,380
Total segment liabilities – 30 June 2018			61,806	8,400	70,206
Other disclosures					
Depreciation & amortisation			498	1,636	2,134

Reconciliation of segment assets and liabilities

31 December 2018	Core business $'000	Australia Manufacturing $'000	Group Total $'000
Segment assets	119,043	39,842	158,885
Unallocated:			
Cash and cash equivalents			94,843
Derivatives			61
Current tax assets			1,593
Deferred tax assets (net)			6,663
Total assets			262,045
Segment liabilities	36,596	6,777	43,373
Unallocated:			
Provisions			557
Borrowings			66
Total liabilities			43,996

30 June 2018	Core business $'000	Australia Manufacturing $'000	Group Total $'000
Segment assets	145,994	40,386	186,380
Unallocated:			
Cash and cash equivalents			87,634
Deferred tax assets (net)			6,798
Total assets			280,812
Segment liabilities	61,806	8,400	70,206
Unallocated:			
Provisions			610
Borrowings			62
Derivatives			232
Current tax liabilities			2,344
Total liabilities			73,454

The 30 June 2018 segment note disclosures have been restated as follows:

30 June 2018	Australia Sales $'000	Overseas Sales $'000	Core Business $'000	Australia Manufacturing $'000	Group Total $'000
Segment revenue from external customers	224,118	95,887	320,005	8,699	328,704
Underlying segment EBITDA	49,287	33,602	82,889	(4,771)	78,118
Underlying segment EBITDA%	22.0%	35.0%			
Unallocated corporate costs			(7,579)		(7,579)
Segment EBITDA[1]			75,310	(4,771)	70,539
Segment EBITDA%			23.5%	(54.8)%	21.5%

(1) Excluding significant items of $6.0m.

3. Income Tax

The effective tax rate calculated for the half year to 31 December 2018 is 31.9% of Company profit before tax, compared to 31.5% for the six months ended 31 December 2017. The effective tax rate is greater than 30% due to prior year adjustments relating to overseas subsidiaries.

4. Inventory

	31 December 2018 $'000	30 June 2018 $'000
Raw Materials	24,354	18,406
Finished Goods	27,778	58,851
Goods in Transit	8,905	13,196
Inventories	61,037	90,453

Key Judgements and Estimates

Inventory values are stated net of provision of $20.6m (FY18: $10.0m). The provision for inventory write-downs was increased by $12.0m resulting from the transition to SAMR registered products in China and COOL compliant labelling in Australia.

The valuation of inventory is considered an area of significant judgement. Inventory is valued at lower of cost or net realisable value. The value is dependent on the revenue forecasts and the estimated impact of regulatory change. Should revenue forecasts not be achieved, or the regulatory impact differs from that estimated, the net realisable value of inventory as assessed at 31 December 2018 may be impacted.

5. Issued capital

	31 December		31 December	
	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Opening balance at 1 July	113,316,104	99,679,345	120,870	53,795
Issue of ordinary shares during the half-year:	-	12,928,292	-	66,709
Employee option plan – options exercised	52,193	708,467	-	366
Dividend Reinvestment Plan	-	-	-	-
Closing balance at 31 December	113,368,297	113,316,104	120,870	120,870

On 28 August 2018, 59,406 options were granted to new senior management under the Bellamy's Australia Limited employee option plan. These options have a vesting date of 31 August 2021 (Tranche 1) and 31 August 2022 (Tranche 2).

At the Annual General Meeting On 24 October 2018, shareholders approved the grant of 20,878 options to a new Director. The terms of the grant are set out in the 2018 Remuneration Report.

On 11 September 2018, an options grant to Senior Executives (granted in December 2015) vested after meeting vesting conditions prescribed. In relation to this grant, 592,399 options were eligible to be exercised.

As at 31 December 2018, Directors, executives and employees held options over 5,717,196 (2017: 5,808,431) ordinary shares of the Company.

The holders of these options do not have the right, by virtue of the option to participate in any share issue or interest issue of the Group or of any related body corporate. Until they are exercised, the options carry no rights to dividends and no voting rights.

6. Dividends

	Half-year	
	31 December 2018 $'000	31 December 2017 $'000
Ordinary Shares		
Dividends paid during the half-year	-	-

No dividends have been declared in respect of the half-year ended 31 December 2018.

7. Borrowings

Funding Note

HSBC provides a working capital facility to the Company in an aggregate amount of $40 million, together with a credit card facility of $350,000 and a bank guarantee facility of $200,000 (together, the "facilities"). The working capital facility is comprised of several sub-facilities with specific conditions and limits, with the effect that the Company's ability to utilise the working capital facility is subject to those conditions being satisfied and those limits not being exceeded. The facilities are secured over assets of the Company and are subject to the Company complying with its obligations (including financial covenants) under those facilities. At 31 December 2018, the aggregate amount outstanding under the facilities was $66,000 in respect to the credit card facility (2017: $62,000) and $nil in respect to other facilities (2017: $nil) and the Group was in compliance with its obligations under those facilities. Based on current forecast, the Group will remain in compliance with those obligations. Subject to the terms of its manufacturing agreement, Fonterra has a second ranking security over the assets of the Group. In January 2019, the facility was extended for a further 2 years.

8. Intangible assets

The Group's intangible assets include: goodwill, licences and customer contracts arising from business combinations, production access rights and other intangibles as follows:

	31 December 2018 $'000	30 June 2018 $'000
Goodwill at valuation	28,239	28,239
Impairment	-	-
	28,239	28,239
Licences, contracts and other intangible assets	16,338	16,018
Accumulated amortisation	(6,410)	(4,178)
	9,928	11,840
Total intangible assets at cost	44,577	44,257
Accumulated amortisation and impairment	(6,410)	(4,178)
Net intangible assets	38,167	40,079

On 3 July 2017, the Company acquired 90% of A.C.N. 610 661 611 Pty Ltd, the 100% owner of Camperdown Powder Pty Ltd. Goodwill attributed to the Camperdown cash-generating unit (CGU) was $28.2m.

The recoverable amount of CGU is determined based on fair value less costs to sell. This calculation is based on a cash flow projection, based on assumptions for a market participant and taking into account the risks associated with the cash flows. The fair value model is a 10 year cash flow model using a discount rate approximating a pre-tax discount rate of 15% determined to be applicable to manufacturing / canning facilities involved in the infant formula manufacturing industry.

Key judgements and estimates

The fair value model includes volumes for a current manufacturing contract that has a SAMR licence and estimated production volumes for Bellamy's Chinese label product assuming successful SAMR registration. The fair value model also assumes:

- The facility upgrade is completed and provides increased production capacity and efficiency
- Three SAMR registered brands will be produced at the facility and will continue to attract a premium price to Australian label production
- The valuation assumes licences and registrations are maintained over a period of 10 years. There is no growth in production output once the facility upgrade is completed and inflation is 2% per annum.

The valuation will be reassessed if Camperdown's application for SAMR registration for Bellamy's Chinese label product is rejected.

9. Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

No Director has entered in to a material contract with the Company during the half-year and there were no material contracts involving Director's interests existing at period end.

10. Contingent liabilities

On 23 February 2017 and 8 March 2017 Slater & Gordon Limited and Maurice Blackburn commenced a representative proceeding (shareholder class action) in the Federal Court of Australia against the Group. The statement of claim includes allegations of contraventions of the Corporations Act 2001 (Cth) in relation to misleading or deceptive conduct and continuous disclosure obligations.

The proceedings have, to date, mostly been consumed with procedural issues relating to the fact that there are two near-identical class actions. The Group will continue to vigorously defend the proceedings. The statements of claim served by the applicants do not quantify, and it is too early to provide a reliable assessment of the likely quantum of any damages that may become payable if its defence is unsuccessful in whole or in part.

Bellamy's currently owns 90% beneficial interest in Camperdown and, in accordance with Bellamy's announcement dated 15 January 2018, will complete the acquisition of the remaining 10% in Camperdown conditional on meeting certain conditions.

Consideration for the acquisition of the remaining 10% will be satisfied by way of the issue of 300,000 ordinary fully paid Bellamy shares at an issue price of $10.96, the issue of which is conditional on Camperdown receiving SAMR approval for Bellamy's Chinese label products.

11. Commitments for expenditure

a) Shortfall payments

Bellamy's has two material manufacturing agreements that guarantee long-term access to the highest quality production facilities in Australia. Bellamy's has not recorded these contractual rights as contingent assets. The two manufacturing arrangements have minimum volume commitments which run for a number of years. Where the Group is not able to fulfil minimum volume commitments, it is required to make production shortfall payments. Some contracts provide for rebates for exceeding specified volumes. Rebates are recorded in inventory in accordance with the relevant accounting standard.

Bellamy's also enters ingredient supply contracts with Minimum Volume Commitments which are accounted for in the same way as Manufacturing volume commitments.

The minimum volume commitments are based on the contract year (which differs from the Group's financial year). At each reporting period, a provision is raised when production thresholds have not been met or the Group does not have the ability to meet the threshold under the contractual terms.

In 1H19, an expense of $1.2m has been recognised in cost of goods sold as a shortfall expense, for which there is a provision of $2.5m payable in relation to contract year 2018 of a manufacturing agreement. In 2H19, if production levels remain consistent with 1H19, a similar amount may be incurred. Beyond FY19, shortfall payments and the related expense may continue over the term of the contacts and could increase or decrease depending on the level of production.

b) Lease commitments

Operating lease commitments primarily relate to leasing arrangements for premises.

12. Subsequent Events

There are no material matters to report subsequent to the end of the half-year.

13. Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Bellamy's Australia Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below. The half-year financial statements have been prepared on the basis of accounting policies consistent with those applied in the 30 June 2018 annual report.

a) New and amended standards adopted by the group

A new or amended standard became applicable for the current reporting period for which the Group has adopted for the first time:

i) AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 January 2018. The standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

In Australia, this is deemed to be at the point of delivery unless otherwise agreed with the customer. For overseas customers, revenue is recognised at the point where all performance obligations have been completed and control has passed, which can be at the port of departure, or after customs or quarantine clearance, depending on the customer contract.

AASB 15 Revenue from Contracts with Customers was adopted without restating comparative information. Management have assessed the impacts of applying the new standard to comparative information and the result was not material to the reported results.

b) Impact of standards issued but not yet applied by the group

i) AASB 16 Leases

AASB 16 Leases was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low-value leases.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date the group has non-cancellable operating lease commitments of $2.4m. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The new standard is mandatory for first interim periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

Directors' Declaration

In the Directors' opinion:

a) The financial statements and notes set out on pages 10 to 20 are in accordance with the Corporations Act 2001, including:

   I. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

   II. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date and

b) there are reasonable grounds to believe that Bellamy's Australia Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

John Ho

CHAIR

Melbourne, 26 February 2019

Independent Auditor's Review Report to the Members

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Independent auditor's review report to the members of Bellamy's Australia Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bellamy's Australia Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Bellamy's Australia Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bellamy's Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bellamy's Australia Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Alison Tait
Partner

Melbourne
26 February 2019

Corporate Directory

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John Murphy (Deputy Chair)
Rodd Peters
Wai-Chan Chan
Shirley Liew

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