ASX Announcement

Freedom Foods Group Limited (ASX: FNP)
Half Year FY 2012 Financial Results

The Board of Freedom Foods Group Limited (FNP) today announced the Company's financial result for the half year ended 31 December 2012.

Key Highlights from Group Activities

- Freedom Foods business unit continued to build on its momentum from the prior financial year, delivering overall gross sales growth of 17.6% and business unit EBDITA contribution up 27.8%, compared to the previous corresponding 6 month period.
- Volume growth in Freedom Cereals of 20% and sales growth of 17%, compared to the previous corresponding 6 month period, including a material improvement in Cereal margins expected to further improve in the second half.
- Dairy alternative beverage sales (soy, rice and almond) continued their trend from FY 2011 with volume growth of 27% and sales growth of 30% compared to the prior year period reflecting increased market share of the Australia's Own Organic brand.
- Speciality Seafood business while impacted by an inventory shortfall in Salmon in 1st quarter increased its share of the Salmon category in the 2nd quarter, with the Paramount brand achieving no 1 branded share in Pink Salmon segment ahead of John West.
- Pactum Australia JV delivered a strong sales and business contribution. As a significant strategic growth opportunity for the Company:
    - Pactum commenced a $7million capital program to expand its packaging capability at its southern Sydney site to provide portion pack UHT (250-330ml configuration) for value added beverages, to be completed by September 2012.
    - FNP and Arrovest Pty Ltd (the Perich Group) have agreed the terms on which it is proposed, conditional on shareholder approval, that Pactum be consolidated into FNP through the acquisition of the 50% of the shares in Pactum, currently held by the Perich Group for approximately $6 million.
- A2 Corporation (27.5% FNP shareholding) reported continued strong growth in the Australian fresh milk business with market share by value in grocery increasing to approximately 4.7%. A2C current market capitalisation of NZ$200 million (A$156 million), implies a value for FNP's 27.5% investment of approximately A$43 million, materially above the book value of approximately A$11.7 million and in excess of FNP's current market capitalisation.
- Net Debt / Equity up to 41% from 36% at June 2011, reflecting financing of A2C share option subscription in July 2011.
- Net assets per share at $0.52 and net tangible assets of $0.30 cents per share, with A2C investment recorded at book value.
- The Company's intention is to pay a final dividend for FY 2012 commensurate with the total dividend of $0.01 per ordinary share paid for the FY 2011 financial year. A fully franked converting preference share dividend to be paid in accordance with the terms of the converting preference shares in April 2012.

Group Summary Result

The Company achieved an Operating Net Profit of $1.64 million for the 6 months ended 31st December 2011, reflecting a 7.3% increase on the previous corresponding 6 month period.

The Reported Net Profit for the previous corresponding 6 month period included non-operating items that contributed $1.78 million to Net Profit, comprising primarily the profit on sale of the Company's 50% interest in A2 Dairy Products Australia Pty Ltd (A2DPA), and the write-down in the carrying value of the Thorpedo Foods investment.

The result reflected operating EBDITA slightly above the prior corresponding period, with improving sales and margins from the Freedom Foods business, offset by Specialty Seafood which was impacted by an inventory shortfall in 1st quarter.

Equity Associates contributions reflected profitability from the Pactum Australia joint venture and share of profits from A2 Corporation. The equity accounted share of profits was reduced from the previous corresponding 6 month period as an equity contribution from the A2DP JV was included in FY 2011.

The results included an overall income tax benefit of $106k ($169k prior period) largely resulting from a prior year tax adjustment for increased allowances for research and development.

Summary Financials

6 months to 31 December	2011 $'000	2010 $'000	% Change
Gross Sales Revenues (1)	**30,830**	**29,895**	**+3.1%**
Net Sales Revenues	**24,125**	**23,581**	**+2.3%**
EBDITA (Operating) (2)	**2,248**	**2,225**	**+1.0%**
EBITA (Operating) (2)	**1,702**	**1,679**	**+1.4%**
Equity Associates Share of Profit	**674**	**679**	**-0.7%**
Pre Tax Profit (Operating)	**1,538**	**1,461**	**+5.3%**
Pre Tax Profit (Reported)	**1,538**	**3,241**	**-52.5%**
Net Profit (Reported)	**1,644**	**3,410**	**-51.8%**
Net Profit (Operating)	**1,644**	**1,532**	**+7.3%**
Interim Ordinary Dividend (cps)	**Nil**	**$0.005**	
Interim CRPS Dividend (cps)	**$0.014**	**$0.001**	
Net Debt / Equity	**41%**	**35%**	**+17.0%**
EPS (cents per share)(Fully Diluted for CRPS)	**1.8**	**4.3**	**-63.6%**
Net Assets per Share	**52.5**	**50.8**	**+3.3%**
Net Tangible Assets per Share	**30.3**	**28.7**	**+5.6%**

Notes:
(1) Gross Sales Revenues excludes Royalty income received from Yakult and does not include revenues from group associate entities, a2 Dairy Products, A2 Corporation and PACTUM.
(2)Operating EBITDA and EBITA, excludes abnormal or non-operating charges includes add back of non cash employee share option expense.

Business Units – Wholly Owned

Freedom Foods

The Freedom Foods business unit continued to build on its momentum from the prior financial year, delivering overall gross sales growth of 17.6% and business unit EBDITA contribution up 27.8%, compared to the previous corresponding 6 month period.

The improving results reflect primarily the benefits of the dedicated gluten, wheat and nut free manufacturing facility near Leeton NSW, a facility which the Company believes is the only integrated scale manufacturing capability in Australia and overseas for cereals and snacks "free from" key allergens such as gluten, nuts and dairy.

The Leeton facility delivers capability for Freedom Foods to internally manufacture its core range of shelf stable "free from" products and provides a platform for growth through improved quality, innovation and lower costs.

During the half, the business continued to invest in driving the Freedom branded portfolio through a focus on effective promotional price points, new product innovation and a marketing campaign primarily through targeted national radio communication.

As a result, the business recorded volume growth in Cereals of 20% and sales growth of 17%, compared to the previous corresponding 6 month period. The benefit of the Leeton manufacturing facility saw a material improvement in Cereal margins and with growing Cereal volumes and a focus on further improving operational efficiencies is expected to further improve in the second half.

During the half, Freedom largely completed the commissioning of its snack bar line, which is an important part of Freedoms strategy to leverage its Cereal base into breakfast snack alternatives, as well as meeting demand for "nut free" snacks to manage anaphylaxis risks particularly around children. New product innovation and reformulation of existing snack bar lines is expected to deliver sales growth and operational efficiencies in the second half.

Dairy alternative beverage sales (soy, rice and almond) continued their trend from FY 2011 with volume growth of 27% and sales growth of 30% compared to the previous corresponding 6 month period. The growth largely reflected increased market share of the Australia's Own Organic brand as a result of marketing investment and improved distribution including exports into SE Asia. Late in the 1st half, the business launched an Australia's Own Organic branded Almond Milk reflecting increasing consumer awareness of health benefits of Almond based products.

As part of a focus on developing its range of dairy alternative beverages, the business, in cooperation with Pactum Australia and Blue Diamond Growers of California, has launched under licence the Blue Diamond Almond Breeze Milk range for the broader mainstream market in Australia.

Bakery wraps and mayonnaise products performed slightly ahead of the previous corresponding 6 month period.

The business continued to invest in growing its sales base of Cereal products specific to the Food Service and Industrial channels, as well as a small but growing base of exports of Cereals into North America.

The focus for the business remains on increasing sales through growth in distribution channels and increased awareness of the brand and products across a broader consumer market. An expanded marketing campaign involving television and radio will commence from April 2012.

This growth focus, along with continued improvement in manufacturing efficiencies at the Leeton site is expected to deliver an improved business contribution in FY 12, progressing to meeting our benchmark 15% return on funds employed in the medium term.

Specialty Seafood

The Speciality Seafood business performed below plan, reflecting the impact of an inventory shortfall in Salmon in 1st quarter and lower sales in New Zealand.

Notwithstanding the inventory shortfall in Salmon, Paramount, the No 2 proprietary brand in the Salmon category, increased its share of the Salmon category in the 2nd quarter and achieved no 1 branded share in Pink Salmon segment ahead of John West.

Brunswick sardines maintained its No 1 brand leadership position in Australia and New Zealand, although the business experienced lower sales off take in New Zealand in 1st quarter.

While the business has seen the benefit of higher exchange rates on inventories purchased in $USD and $CAD, this has continued to assist in managing cost increases in salmon and sardine procurement, while also facilitating increased trade investment.

The business continued to utilise the procurement power of Bumble Bee Foods of North America, with Bumble Bee securing inventory requirements and assisting in managing impact of shortfall in the 1st quarter through priority access to new Salmon catch volumes.

Business Units – Joint Ventures / Strategic Equity Associates

Pactum Australia Pty Ltd, 50% Equity Interest

Pactum Australia Pty Limited (Pactum) which provides contract manufacture of UHT beverages for private label and proprietary customers delivered a strong sales and business contribution for the 1st half of FY 2012.

Pactum production volumes increased in the 1st half to support the growth of the Freedom dairy alternative beverage range. The business continued to reduce its reliance on lower margin commodity products with an increasing mix of sales of value added UHT products.

As part of its long term growth strategy, Pactum commenced orders for equipment to expand its packaging capability at its southern Sydney site to provide portion pack UHT (250-330ml configuration) for value added beverages. The expansion at a total investment cost of approximately $7 million is scheduled to be completed by September 2012 and will provide portion pack capacity of up to 40m packs per annum.

The expansion will position Pactum as the only independent low cost manufacturer of a broad range of UHT products on east coast of Australia, with capability to meet the increasing demands from its private label and proprietary customer base. Pactum also continues to investigate opportunities to support Asian market demand for dairy milk in long life product formats.

FNP equity accounted 50% of the NPAT of Pactum for the six months of $344K ($439K 2010).

Consolidation of Pactum and Acquisition of 50% Interest from Perich Group

FNP and Arrovest Pty Ltd (the Perich Group) have agreed the terms on which it is proposed, conditional on shareholder approval, that Pactum be consolidated into FNP through the acquisition of the 50% of the shares in Pactum, currently held by the Perich Group.

The Company believes that after 6 years of operation, Pactum has developed a business that provides a significant strategic growth opportunity as well as providing synergies in servicing common customers and materials purchasing with the Company's Freedom Foods business.

The acquisition is expected to provide FNP with a number of benefits including:

- provide for full consolidation of the financial results and access to 100% of the cashflows of Pactum;

- participate in potential sales and earnings growth opportunities provided by the expansion of Pactum's packaging capabilities at its southern Sydney site from late 2012;
- simplify the Group's reporting and corporate structure; and
- the transaction is expected to be earnings accretive in its first year of full ownership in FY 2013.

The net purchase consideration for the shares is approximately $6m, subject to final adjustments on completion.

The acquisition is conditional on shareholder approval being obtained in accordance with the requirements of ASX Listing Rule 10.1 and Section 208 of the Corporations Act 2001. A voting exclusion will apply to this shareholder approval and FNP will disregard any votes cast on this approval by and on behalf of the Perich Group and any associates of the Perich Group. Subject to approval of the Notice of Meeting, Explanatory Statement and Independent Expert Report (the Meeting Documentation) by the ASX and ASIC, the Meeting Documentation is expected to be sent to shareholders in late March, with a shareholder meeting to approve this acquisition on or around 26th April 2012.

FNP intends to fund the purchase consideration through a loan to be provided on arm's length terms by the Perich Group for 12 months. The company currently intends that repayment of the loan will be made from existing funds and a potential extension of finance facilities prior to the loan end date. The Company retains flexibility to fund medium to long term capital commitments in its core activities through realisation of part or all of its strategic investments.

Following completion of purchase of the Pactum Shares, FNP will have an approximate investment cost in Pactum of $8.2 million which on a total enterprise basis as at 30 June 2011, equates to an historical EBDITA multiple of 3.8x (based on FY 2011 audited EBDITA adjusted for property rent and management fees).

A2 Corporation Limited (A2C), 27.5% (26.4% fully diluted) Equity Interest

A2C announced on 21st February 2012, an unaudited Group Profit after Tax of NZ$3.1million for the six months ended 31 December 2011. Consistent with A2C's strategy for growth, the key initiatives progressed during the 6 month period included:

- Continued strong growth in the Australian fresh milk business with market share by value in grocery increasing to approximately 4.7%;
- Substantial progress in developing the new fresh milk processing facility in Sydney, Australia with commissioning commenced in February 2012;
- Establishment of a significant joint venture dairy business for the United Kingdom and Ireland in association with a high calibre partner, Robert Wiseman Dairies;
- Continued development of strategies to introduce a2™ brand infant formula into Asia and enter further global milk markets; and
- Settlement of an outstanding legal dispute with a former licensee with receipt of NZ$1.1 million net of costs.

In July 2011, FNP announced that under the terms of an option agreement between A2C and FNP, FNP has subscribed for 18.7million fully paid ordinary shares in A2C at a price of NZ$0.13 (A$0.11) for a total consideration of A$2.06 million, which resulted in FNP increasing its shareholding in A2C to 27.5% of A2C (26.4% fully diluted), with FNP now the largest single shareholder in A2C.

A2C is listed on the alternative market (NZAX) of the New Zealand Stock Exchange (NZX: ATM), with a current market capitalisation of NZ$200 million (A$156 million) based on a current share price of NZ$0.34, implying a value for FNP's 27.5% investment of approximately A$43 million, materially above its book value of approximately A$11.7 million and in excess of FNP's current market capitalisation.

FNP equity accounted 26.4% of the NPAT of A2C for the six months of $330K ($240K 2010).

Dividends

The Company will pay a fully franked converting preference share dividend to be paid in accordance with the terms of the converting preference shares in April 2012.

With dividend priority to the converting preference shareholders, higher seasonal working capital demand and the absorption of the Pactum consolidation in the 2nd half, the Company is not proposing to pay an interim dividend on ordinary shares. Subject to the group business units' continuing to perform to expectations, the Company intends to pay a final dividend for FY 2012 commensurate with the total dividend of $0.01 per ordinary share (comprising interim and final) paid for the FY 2011 financial year.

Executive Share Option Scheme

The Company under its Employee Share Option Plan (ESOP) is implementing a senior management incentive scheme to align key executive performance with long term performance and growth of the Company. Mr Rory Macleod, Group Executive Director, is proposed to be granted share options, which under ASX Listing Rule 10.14, where a grantee is a director, requires the Company to seek approval of shareholders to make grants of options, and subsequently issue and allot shares to Mr Macleod. It is expected that approval of shareholders will be sought at the shareholder meeting for consideration of the Pactum transaction on or around 26th April 2012.

Outlook

FNP continues to make good progress in the development of its unique business platforms in specialised areas of the food market, with three key growth opportunities within Freedom Foods, Pactum Australia and A2 Milk and a stable business base in Specialty Seafood.

The continued progress in realisation of the benefits from the unique "free from" Leeton facility provides a strong base from which to continue to grow sales and earnings in Freedom Foods over the medium term.

The expansion of packaging capabilities in Pactum provides opportunity to increase sales and profitability through meeting the increasing demands of its private label and proprietary customer base. Additional opportunities are being explored to increase exposure to value added beverages for growing export markets such as China. The consolidation of Pactum into FNP will assist in building more critical mass in earnings and cashflow of the group.

The successful repositioning of the investment in a2 milk™ by FNP has provided the Company and its shareholders a significant value creation opportunity through A2C's growth in Australia and international markets.

Overall the Company anticipates improved sales, operating profitability and return on funds employed in the FY 12 financial year.

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