29th February 2016

Freedom Foods Group Limited (ASX: FNP)
Half Year FY 2016 Financial Results

Freedom Foods Group Limited (FNP or Company) has today released the Company's preliminary half year results for the 6 months ended 31st December 2015.

Operating Highlights

- Strategically well positioned to build a scaled group in key business platforms with sales and earnings growth over the long term from Australia, China and other key international markets.

- Successful half year period investing in the Company's capabilities to deliver profitable growth consistent with its 3 year plan through to 2018, with net sales growth of 21%, reflecting:

    - Sales growth in new value added Cereals and Bars and non-dairy beverages, including branded and non-branded sales in the growing Almond and value added milk categories;
    - Acceleration of growth in sales of Australia's Own Kids Milk in China in 2nd quarter, in partnership with Shenzhen JLL; and
    - Sales impact of Darlington Point Mill, acquired in August 2015 and a contribution from Popina Foods, acquired in December 2015.

- Operating EBDITA of $7.5 million, an increase of 32% on the previous corresponding period, including increased contribution from Cereal, Snacks and Beverage operations, offset by a decrease in contribution from Seafood and increased loss in North America.

- Dairy operations at Shepparton (Pactum Dairy Group or PDG) achieved sales of $30 million, with the business set to experience a significant step up in sales in the second half, reflecting new contracts and increasing demand in Australia, China and South East Asia. Currently, the Company accounts for its 1% equity investment on an equity accounted basis. Effective 1 January 2016, the Company increased its shareholding in PDG to 50% (from the conversion of notes already held by the Company) and is expected to account for PDG as a consolidated entity within the Company from that date.

- Significant investment in manufacturing capabilities, people, new product development, quality and systems, including commencement of construction of a new UHT processing facility at Ingleburn in Sydney, to drive material ongoing earnings benefits over the medium term.

- As part of our long term strategic dairy milk supply strategy, the Company became a 10% equity participant in Australian Fresh Milk Holdings Consortium (AFMH), with the acquisition of Moxey Farms, Australia's largest single-site dairy operation, in August 2015. The business is profitable and made a small contribution to earnings in the half year.

- Completion in August 2015 of the acquisition of the Darlington Point Mill and in December 2015, the acquisition of Popina Foods, a recognised leader in cluster format cereal and snacks in Australasia. The purchase price for Darlington Point Mill was $8.5 million and for Popina Foods was approximately $35 million.

- Successful capital raising initiatives including an entitlements and placement in November 2015 to existing and new shareholders raising $65 million, and the sale of the Company's investment in The a2 Milk Company to provide for reinvestment into core operating businesses, generating cash of $90 million and a net profit of $25 million. At 31st December, the Company had cash on hand of $109 million.

Financial Summary

The Company reported an operating net profit of $4.2 million, an increase of 35% from the prior corresponding period.

The statutory net profit of $27 million, reflected a pre-tax gain of $25 million, arising from the sale of the investment in The a2 Milk Company. This profit also reflected one-off costs relating to expensing of transaction costs of $1.1 million relating to the Darlington Point and Popina Foods acquisitions. The Company also expensed non operating amounts relating to costs of incomplete transactions and insurance claims that are not expected to be recovered. The Popina Foods acquisition was completed in December 2015, with an immaterial impact to sales and earnings in the half year. Assets acquired in December 2015 were fully recognised at half year balance date.

The Company achieved an underlying Operating EBDITA of $7.5 million, 32% above the previous corresponding period. The underlying Operating EBDITA and statutory result was also impacted by the expensing of approximately $1.4 million of increased USA and Australian sourced Almond input costs (reflecting adverse market price movements and exchange rate), as compared to the previous corresponding period.

Each of the business units achieved increased sales growth. Cereals, Snacks and Non-Dairy Beverage operations performed ahead of the prior year. Although Specialty Seafood's revenue increased, its contribution to Operating EBDITA declined due to exchange rate impacts on cost of goods sold.

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

6 Months to 31 December (A$'000)	**2015**	**2014**
Underlying Operating EBDITA before significant items	**8,942**	**6,046**
Significant Items expensed to profit:		
Market price and exchange rate impact on purchases of Almond inputs	**-1,400**	**-350**
Underlying Operating EBDITA	**7,542**	**5,696**
Other costs not representing underlying performance costs of incomplete transactions, prior year insurance claims not expected to be recovered	**-1,326**	**-**
Employee Share Option Expense (non cash)	**-180**	**-180**
Statutory EBDITA	**6,036**	**5,516**

Note: Operating EBDITA is a non-IFRS measure as contemplated in ASIC Regulatory Guide 230 Disclosing non-IFRS financial information (RG230). Operating EBDITA is used by management and the directors as the primary measures of assessing the financial performance of the Group and individual segments

Summary Financials

6 Months to 31 December	2015	2014	
	$'000	$'000	% Change
Net Sales Revenues (1)	65,234	55,528	17.5%
Net Sales Revenue (reported)	54,117	44,725	21.0%
EBDITA (underlying Operating before Significant Items)	8,942	6,046	47.9%
EBDITA (Underlying Operating)	7,542	5,696	32.4%
EBITA (Operating) (2)	5,437	4,154	30.9%
Equity Associates Share of Profit (3)	192	0	100.0%
Pre Tax Profit (Operating) (4)	4,915	4,431	10.9%
Pre Tax Profit (Reported)	27,355	57,399	-52.3%
Income Tax	-3,933	-2,209	78.0%
Net Profit (Operating) (4)	4,191	3,102	35.1%
Net Profit (Reported) (4)	23,422	55,190	-57.6%
Interim Ordinary Dividend (cps)	1.75	1.50	16.7%
Interim CRPS Dividend (cps)	1.35	1.35	0.0%
EPS (cents per share)(Fully Diluted for CRPS)	14.13	36.35	-61.1%
EPS Operating (cents per share)(Fully Diluted)	2.51	2.04	23.0%
Net Debt / Equity	-12.1%	14.3%	-184.3%
Net Assets per Share	149	116	28.6%
Net Tangible Assets per Share	127	102	25.0%

Notes:

1. *Gross Sales Revenues do not include revenues from group associate entity, Pactum Dairy Group Pty Limited. Net Sales Revenues in the table above differs from the Appendix 4E, as the Net Sales Revenue above includes intercompany sales eliminated from the statutory reported Net Sales Revenue figure. This treatment reflects the Group's arm's length trading policy between Group activities.*
2. *Operating EBDITA and EBITA excludes pre-tax abnormal or non-operating charges and gains with an add back of non cash employee share option expense of $180k, elimination of the gain due to the disposal of The a2 Milk Company investment and the share of profit from associates.*
3. *Net share of gain from associates.*
4. *Operating Pre Tax Profit and Net Profit does not include the gain due to the sale of The a2 Milk Company investment and the net share of profits from associate.*

The Company's income tax provision on operating profit (excluding impact of gain on the a2 Milk Company) reflected the allowable portion of deductible capital works expenditure on income producing assets undertaken during the year.

1. Beverage Business Group

1.1 Non Dairy Activities

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

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

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

Financial returns in the Almond portfolio continue to be impacted by approximately $1.5 million (as compared to the prior half) during the period by increased Almond inputs (reflecting exchange rate and market pricing). A recent reduction in market prices globally for Almond is expected to provide an improvement in financial returns over the next 12 months.

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.

Sales of UHT portion pack products increased during the period reflecting growth in private label business and JLL Australia's Own Kids Milk requirements in China.

The Company is building a unique capability to innovate products to meet specific channel needs. Late in the 2nd quarter, the Company launched new innovation in plant and dairy based products for food service and petrol & convenience channels. This included the launch of Milklab (providing a range of made for barista specialty milks) and Breakfast Blends (providing a range of premium breakfast drinks combining almond and oats). These launches, along with further innovation, are expected to lead to increased sales and profitability and build the Company's distribution capabilities in these growing non-retail channels.

During the period, the business invested significantly in its product development capabilities to ensure it is a leading participant in developing innovative UHT solutions in non-dairy and dairy applications for its customers in Australia, China and South East Asia. The benefits of this investment will lead to increased sales and distribution in the second half and beyond FY 2016.

Construction commenced on New UHT Facility at Ingleburn, South West Sydney

Current non-dairy capabilities are constrained in both production and distribution at our Taren Point operation, restricting growth and financial returns.

The Company has commenced construction of a new UHT facility at a site in Ingleburn in South West Sydney. Construction is due to be completed by November 2016, with commissioning process estimated to be completed by April 2017. The transfer of operations to the Ingleburn site from our existing Taren Point operation will be staged over a 6 month period to ensure continuity of supply. 1st stage installed capacity is expected to be approximately 80 million litres, from current capacity at Taren Point of approximately 50 million litres.

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

1.2 Dairy Activities

1.2.1 Pactum Dairy Group (PDG)

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

Dairy operations at Shepparton achieved sales in the 1st half of $30 million, with the business set to experience a significant step up in sales in the 2nd half, reflecting new contracts and increasing demand in Australia, China and South East Asia.

In Australia, the Company has secured a number of long term retail customers, with a significant proportion of this production volume commencing in the 2nd half.

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

In South East Asia, the Company has also developed other customer relationships in markets such as Hong Kong, Philippines and Vietnam. A significant proportion of this new production volume will also commence in the 2nd half.

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

New Capacity

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

To meet the increased demand referred to above, the Company will install additional 1 Litre production capacity in the 2nd half. Current demand for the 1 Litre format has exceeded current capacity, with the Shepparton operation having recently moved to 24/7 production. The capacity increase, along with increased processing capability and upgrades to downstream packaging, will significantly improve efficiencies.

The Company is also investing in new capabilities to process and package value-add milk derivatives including cream and yoghurt in UHT formats, with these capabilities coming on stream in early FY 2017.

Shareholding in PDG

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

As part of this the Company is expected to account for PDG as a consolidated entity within the Company hence contributing to operating EBDITA, reflecting the business's increasing revenues and customer base.

1.2.2 Brand Development in Online Channels in China

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

Since September 2015, the So Natural brand, with marketing and promotional support, has become the fastest growing 1 Litre dairy product on JD.com's cross border trading platform, establishing a strong consumer franchise based on quality, price and delivery. With the ongoing support of JD.com, the Company expects acceleration of demand for this brand into 2016. To build further brand capability, the Company has launched a portion pack variant and will introduce further dairy product formats into 2016. Other non dairy products will also be launched under the brand including Cereal variants.

To complement this activity, the Company will develop a further brand on the Alibaba Tmall online cross border trading platform. This will initially be under the 1 Litre and Portion Pack variants.

1.2.3 Australia's Own Brand Partnership for China

The Australia's Own brand is being marketed and distributed in China through a long term 50 year partnership with Guangzhou based Shenzhen JiaLiLe Food Co. Ltd (JLL), which is owned and led by parties associated with the establishment of the largest selling ready to drink beverage in China. The arrangements reflect the strategic approach of our business model to engage established partners in foreign markets who understand local business requirements.

Kids Milk

The Company commenced production of our "Australia's Own" branded "Kids Milk" to support its launch in China in February 2015.

The current product is a single serve 200ml pack, which is the first Australian milk product marketed specifically to the post-infant-formula toddler market in China.

The product has been launched in a small number of key provinces including Zhejiang, Hunan and Jiangsu, with considerable marketing investment by JLL, including point of sale promotion and sampling, external promotion and TV commercials. Volumes developed throughout the 2015 year, with a strong increase in the 2nd quarter of FY 2016, as the product started to gain acceptance with consumers, particularly in large format retail supermarkets in the key provinces targeted.

Marketing investment including point of sale promotion, sampling and sponsorship of leading children's TV programmes in key provinces has continued into 2016.

With a forecast significant increase in demand in and beyond 2016, the Company is planning for additional high speed 200ml capacity to be installed at the new Ingleburn site in 2017. Current capacity is limited, given ongoing demand for other portion pack formats in Australia.

Next Stage of Development including Infant Formula

The Company and JLL are developing a strategy to build the "Australia's Own"brand as a leading high quality imported brand of choice for Childrens Nutrition in China. Building off the strong consumer uptake for the brand in the 3-7 year age bracket, the business is developing plans for launch of products in the 7-12 year age bracket and for infant nutrition, including Infant Formula and Infant Cereals. As part of this, the Company and JLL expect to launch a specialised Infant Formula product in FY 2017. Distribution is proposed to occur initially through specialised channels including online and offline mother & baby shops, using a leading channel distribution partner associated with JLL and the Company.

With a strategy to build further scale and critical mass in the Australia's Own brand in China, the Company and JLL are also considering longer term ownership structures for the brand and business, including the potential for a separately listed Company to provide long term scale and capital.

1.2.4 Australian Fresh Milk Holdings Consortium

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

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

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

Farm Expansion and New Sites

Since acquisition, the shareholders have approved the expansion of Moxey Farm from 3,700 milking cows to 5,500 milking cows. This expansion will be completed by June 2017, with milk production increasing by 20 million litres. A further expansion is being considered to take the farm to its expected maximum capacity of 7,000 milking cows.

The additional milk output from Moxey Farm will be sought by fresh milk processors, given the ongoing decline in fresh milk production in NSW and QLD and requirement to ship milk from Victoria to meet production requirements in those markets. Notwithstanding, it is envisaged that the Company will require a growing proportion of this new output from Moxey Farm for its Australia's Own kids milk and other dairy product formats, with production of such items likely to occur at Ingleburn.

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

1.2.5 Nutritionals Platform

The Company is in the process of a design and feasibility study to build a specialised nutritionals platform aligned to our increasing dairy capabilities across the group. While focussed on dairy, it could potentially be expanded to plant-based nutritionals.

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

The platform is expected to be established on land adjacent to the PDG site at Shepparton in Victoria which is owned by the Company, providing synergies with the existing UHT operation and capability to build a more integrated dairy processing platform into the future, including partnership and collaboration with AFMH.

Subject to the conclusions of the design and feasibility study, the Company is targeting an initial 1st stage capability to be in operation from 1st half of FY 2017.

2. Cereal and Cereal Snacks

The Freedom Foods branded business delivered sales growth in its Cereal, Snacks and related Ingredients segments compared to the previous corresponding period. Alongside sales, marketing and specific product launch investments, the business continued to invest in product development capability to drive further growth in retail and other channels such as food service and petrol and convenience in the medium term.

The business experienced growth in new format combination products such as Active Balance, Oat and Muesli products. The newly launched Crafted Blends cereal range experienced delays in achieving planned distribution, however, has seen increasing consumer uptake in recent months. Traditional format products (i.e. Corn Flakes, Rice Puffs) experienced declines against the prior corresponding period. The business maintained category leadership in Health Cereals, with a +40% market share.

Since the relaunch of our nut free nutritional snack bar range in 2015, the business has experienced growth in both health and mainstream supermarkets channels. Additional SKU's (including expansion of product formats, including paste formats), increased facings, retail distribution and channel distribution (including petrol and convenience) is expected to be achieved during 2016.

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

2.1 Oats based Cereal and Snacks Acquisition

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

Popina Foods is a recognised leader in cluster format cereal and snacks in Australasia, with manufacturing operations based in Dandenong, Victoria. The acquisition is significant to the Company strategically in that it will enable Freedom Foods to expand its brand and category segment offering in oat based products in Australia and into Asia, and for the first time allow Freedom to access manufacturing capability in both Allergen free (Leeton) and nut based capabilities (the new business) on a cost competitive basis. There will also be integration opportunities in milling and ingredients supplies into the new business from our in-house facilities.

The purchase price for Popina Foods was approximately $35 million. The acquisition is expected to be accretive to earnings in its first full year of operations and is expected to provide operational efficiencies in the medium term.

2.2 Darlington Point Mill

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

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

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

The acquisition is expected to be accretive to earnings in its first full year of operations and is expected to provide operational efficiencies in the medium term.

Since acquisition, the Company has upgraded the Darlington Point Mill operations in particular around process, quality and systems. The Company has begun to expand the milling operations for internal use and external third party customers, to grow sales and access cost efficiencies. Already the business is seeing increased demand for its Popping Corn and Maize flour products. Existing milling operations have been relocated from our Leeton facility to the Darlington Point Mill, providing for increased finished goods warehousing capabilities at our operations in Leeton.

With the significant increase in oats purchasing and processing requirements from the acquisition of the Popina business, and a macro outlook for ongoing growth in demand for oats, the business is in the final stages of a feasibility study to process oats at the Darlington Point site. This would include procurement of oats through our own Freedom Farmers base, as well as storage and processing of all current and projected requirements. Subject to the conclusions of the feasibility study, the Company is targeting an initial 1st stage capability to be in operation from early 2017, aligned to the harvest of new season oats.

The changes to the Leeton and Popina operations, and the increase in capability at the Darlington Point Mill will significantly increase Freedom Foods production capability, with no material increase in cash overheads and a lower cost of production in the medium term.

2.3 Brand Development in Online Channels in China

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

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

Following this early success, the Company and Tmall International are fast tracking a joint business plan to accelerate development over the next twelve months of a number of key products within the cluster and oat porridge category under Freedom Foods brands. This will include focused promotional activity to coincide with key promotional periods including Australia Week, Tmall International First Anniversary and traditional promotional times including June, 11/11 and Chinese New Year. Joint marketing and promotional activities will be developed with Tmall.

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

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

2.4 Freedom Farmers

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

During the half year, the Company managed for the first time seed and planting processes under contract with its Freedom Farmers for Popping Corn, Maize and Buckwheat to be delivered through 2016. Additional contracts are being put in place for 2016 plantings, for delivery in 2017.

2.5 North America

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

A total of 3,750 distribution points were established as at 31 December 2015. Freedom Foods is now ranked in the Top 10 Cereal brands in Specialty and Natural channels in the USA. Significant new ranging has been achieved for rollout in 2016 including an additional 800 Kroger stores (within the natural cereals section) and 350 Target stores, along with other incremental small retailers.

With current portfolio sales skewed to a small number of sweeter tasting products, new products that are better aligned to the North American consumer taste requirement are progressively being introduced with anticipated impact on sales from 2nd half 2016.

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

Sales increased from A$660k in 1st half FY 2015 to A$764k in 1st half FY 2016 with the net loss increasing from A$356k to A$505k (including exchange rate impact) as the business continues to invest to build a sustainable market share within the retail and wholesale price point parameters available in the North American market. The North American business contributes to +15% of Leeton Cereal production output.

The Company is actively considering options for increased scale in the North American market including the potential for partnerships and acquisitions that also include further utilisation of our expanding production base in Australia. The business remains focused on delivering a profitable sales base within the medium term through sales of branded Cereals and Cereal snacks that account for a material proportion of groups cereal and snack production capability.

2.5 Cereals, Snacks and Milling Capacity Investment

During the half year, the Company invested $0.8 million in upgrades to its bar processing and packaging capabilities including installation of DDP (paste extrusion) technology at the Leeton site to improve efficiencies and provide increased capacity in range and format for Cereal and Snacks.

2.5.1 Cereal and Snacks Manufacturing Base

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

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

The Company has reviewed its options to fast track volume, format and efficiency opportunities across its combined snacking capabilities, with a decision to create a dual format snacking capability at Leeton, comprising a segregated non allergen snacking line and a segregated allergen free snacking line.

Given the significant demand across the non-allergen snacking market, the new state of the art automated nutritional snacks line at Leeton will be segregated, providing capability to process all types of snacking ingredients including oats and nuts at a lower cost and improved efficiency.

Existing products and customers from Popina operations at Dandenong will be transferred to the new line progressively over the next 9 months.

The existing Popina snack line will be transferred to Leeton and be maintained in a segregated allergen free processing area to process all allergen free snacks.

2.6 Outlook

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

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

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

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

3. Specialty Foods

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

The Paramount Salmon brand performed well during the period. While commencing Salmon inventory reduced our exposure to AUD / USD exchange rate decline, the 2nd quarter was impacted by unfavourable exchange rate on the balance of purchasing in Salmon and Sardines. Tight management of sales promotions and reduced promotional spend negated some of the exchange impact on gross margin.

The business remains focused on positioning for growth through 2016 through category leadership of the Specialty Seafood channel, including new product opportunities aligned to consumer demand for convenience and superior health benefits. Additional product offerings under the Brunswick range will be introduced in 2016 including fish from different sources, reducing reliance on a single source.

Exchange rate impacts in 2016 may be potentially offset by improved Salmon pricing from a strong 2015 Salmon catch. The business continued to utilise the procurement power of Bumble Bee Foods of North America, with Bumble Bee securing 2015 inventory requirements through priority access to salmon and sardine catch volumes.

4. Capital Management

4.1 Capital Raising

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

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

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

4.2 Disposal of The a2 Milk Company Shareholding

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

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

The total profit from investment in The a2 Milk Company, since the original investment in 2007 was A$85 million, a return of 425% on the original investment.

4.3 Cash and Liquidity

The Company held cash of $109 million at 31st December 2015, with total borrowings of $77 million, comprising term facilities, equipment finance leases and working capital facilities. Net debt at 31st December 2015 was $32 million. Net debt excludes financial assets and loans to Associate entities.

At 31st December 2015, the Company had loaned $15million ($13 million at 30 June 2015) to Pactum Dairy Group to support further capital investment and working capital requirements. The loan attracts interest at a rate of 8.0% per annum.

Net cash flow from operations was $1.5 million, an increase of $2.8 million from FY2015, reflecting increases in working capital requirements associated with inventory build for the changing mix of business in beverages and new product launches.

During the period, the Company invested $17 million in capital expenditure (relating to Leeton operations, Darlington Point Mill, Popina and new facilities being constructed at Ingleburn) and drew down financing facilities of $19 million.

5. Dividends

Consistent with the improved profitability and positive outlook for group performance, the Company will pay an interim fully franked dividend of 1.75 cents per ordinary share in April 2016, an increase of 0.25 cents per ordinary share on the interim dividend paid in FY 2015. The record date for determining entitlements is 1st April 2016 and the payment date is 30th April 2016.

Subject to an improving operating performance into 2016, as well as capital and liquidity requirements, the Company will consider an increase in the final dividend, compared to the prior year final dividend.

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

The Company will pay a fully franked converting preference share dividend in accordance with the terms of the converting preference shares. The record date for determining entitlements is 1st April 2016 and the payment date is 30th April 2016.

There are 101,627 converting preference shares remaining on issue at 29th February 2016. 34,720 converting preference shares were converted to ordinary shares during the 6 months ending 31st December 2015.

6. Outlook

The Company is strategically well positioned to build scale in key business platforms with sales and earnings growth over the long term from Australia and key international markets.

The ability to control manufacturing inputs and deliver innovation across a range of product formats for our brands and our key customers will be a key strategic advantage in the medium to long term. We will continue to invest to achieve this outcome.

The Company through its Beverage, Cereals & Snacks and Ingredients platforms will build on its capabilities and capacities for growth, investing in our brands, our manufacturing facilities, product development as well as establishing key customer relationships in Australia, China, South East Asia and North America.

The expansion of our beverage capabilities in Sydney in 2017 will result in an increase in sales and profitability, with further growth opportunities through meeting the increasing demands of our private label and proprietary customer base, including the Company's key brands.

The dairy platform being established around Pactum Dairy Group provides a material opportunity to increase exposure to the growing demand for high quality and safe dairy products from South East Asia, including China, aligned with our brands and our strategic customers. With strong sales growth and increasing profitability into 2016, the increase in the Company's shareholding in PDG to 50% (from the conversion of notes) and accounting for it as a consolidated entity will contribute to operating sales and earnings. Potential expansion into Dairy Nutritionals provides an opportunity to build a more integrated dairy processing platform into the future, closely aligned to our farm ownership.

The Cereals, Snacks and Milling business is now strategically positioned to build a significant growth platform in multiple products, channels and distribution across Australia, China and North America. The 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 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 brands including "Australia's Own", "Freedom Foods", "Arnold's Farm", "So Natural" and "Vitalife", will increasingly play an important part in our growth in Australia and international markets.

We will continue to evaluate acquisitions that add value to and accelerate our business platforms.

Our recent capital raising and realisation of the investment in The a2 Milk Company, along with support from our banking partners, provides a strong balance sheet capability to execute our strategy.

Our operating profits will increase through the investment cycle, balanced against a requirement to invest in people, systems and process to manage a scaled and diversified business platform.

Overall the Company anticipates the ongoing benefits of the strategy and its multi stage capital investment programme to accelerate increased group profits and returns during 2016 and beyond.

For further information, please contact:

Rory J F Macleod
Managing Director
Freedom Foods Group Limited
+612 9526 2555

Media Contacts
Miche Paterson
Newgate Communications
+61 400 353 762