

# **Freedom Foods Group Limited**

**Australian Business Number (ABN) 41 002 814 235**

**Annual Report - 30 June 2020**

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## Letter from the Chair

Dear Shareholders and other stakeholders,

There is no disputing that this has been a difficult year for Freedom Foods Group ('Freedom Foods' or the 'Group').

We have faced genuine challenges – some external beyond our control and others internal that have required urgent and intensive intervention by the Board and the new executive team.

The impact of those challenges is reflected in our deeply disappointing financial performance, most particularly the approximately \$590 million in restatements and writedowns brought to account as set out below.

As we have responded to these challenges there have been – and will be – major changes at Freedom Foods. These changes will affect our performance, our business structure, and our product portfolio, all with the intention of creating long-term sustainable returns to shareholders.

What will not change is our commitment to building a major global food and beverage business.

Since its establishment, Freedom Foods has focused on long-term trends it identified in the food and beverage sectors – such as the growth in plant-based beverages and protein-based nutritionals – and delivered market-leading positions in these key categories and fast-growing domestic and export markets.

Over the past five years, our revenue has grown each and every year and was up 26 per cent to \$580.2 million in the year ended 30 June 2020.

What has become clear, however, is that the growth obtained by the Group was not profitable growth in a number of its businesses. What has also become clear is that some aspects of the culture within the business were not aligned to the best interests of all stakeholders.

Following the Board identifying matters regarding the operation and administration of the Group's equity incentive plan (EIP), the Board initiated an investigation with the assistance of external advisers.

The implementation of our warehouse consolidation program led to the identification in May 2020 of out-of-date, unsaleable and obsolete inventory and other inventory accounting matters. These matters were reported in the ASX announcements of 29 May 2020 and 25 June 2020. The Board commissioned a further investigation of the Group's financial position in June 2020, with the assistance of external advisors including PwC, Ashurst, Arnold Bloch Leibler and Moelis Australia. Those investigations identified a significant number of accounting matters, some of which contributed to selling products at prices insufficient to recover production and operating costs.

The Company is cooperating with the Australian Securities and Investments Commission in relation to these investigations. The matters identified by these investigations that have a material financial and/or operational impact on the Group are detailed in this Annual Report. The Annual Report also outlines the difficult trading environment experienced in H2 FY20 as a result of the COVID-19 pandemic.

Like the majority of companies, Freedom Foods' operations were disrupted by the impact of COVID-19 on its markets – as well as its individual customers, suppliers and employees – and it has taken steps to adjust its operations to manage this once-in-a-generation challenge.

While the Group experienced severe disruption to some markets, such as the out-of-home, export and industrial channels, this was partially offset by a solid sales performance in the Australian retail grocery channel as pantry-stocking drove strong demand for products such as cereals and UHT milk. It is clear that Freedom Foods' focus on food staples, product diversification, long-term contracts and brands have helped shield the business from the worst of the COVID-19-related disruptions.

Freedom Foods Group's shareholders and employees have a right to feel angry and frustrated and they deserve to know that the Board and new management team have been relentlessly focused on addressing historical matters and are instigating longer-term financial, operational and cultural improvements across the Group.

The Group has sought and agreed a standstill agreement with its major lenders in relation to its debt facilities, giving it the ability to undertake a material capital raising that will underpin our long-term recovery plan.

The capital raising, which we expect to announce before the end of the calendar year, and our transformation plan, have the support of our majority shareholder, the Perich family, and potential for other significant investors who share a belief in the Group's long-term success.

The rebuilding of Freedom Foods Group will not be a quick or easy process.

There are the immediate priorities to stabilise the business, its finances and its critical relationships with customers and suppliers, and medium-term structural changes that will simplify the Group and sharpen its focus.

In parallel, the Board and management are rebuilding the senior team, reinforcing internal systems and protocols and focusing on cultural issues via a redesign of employee behaviour, remuneration and associated governance frameworks to promote the optimal employee behaviours and reinforce the corporate values. The letter from Jane McKellar, the new Chair of the People and Culture Committee, set out in the Directors' Report, provides more detail of initiatives in this area. Governance frameworks more broadly are also receiving significant attention. Some examples of this work include but are not limited to the following:

- revised remuneration policies and structure – considerable work has been undertaken by management and the People and Culture Committee to create a concept of four pillars of accountability which will be rolled out across the Group;
- a substantial enhancement to the risk management framework, policies and procedures is under way involving external consulting advice and strong input from our own team and the Risk and Compliance Committee;
- clear responsibilities and delegations have been created for our CEO; and
- Updated standard costs, accounting policies and practices.

The recovery will be overseen by a new management team, led by Interim Chief Executive Officer Michael Perich, and a Board bolstered by our two new, independent Non-Executive Directors, Ms Gregor and Ms McKellar. There are more changes to come. Michael outlines the key improvements he has instigated in his CEO Letter.

All the ingredients for recovery and success exist within the business.

What will emerge will be a substantially simplified business, with a core portfolio of world-leading brands and a clear sales and earnings growth trajectory.

That trajectory will be underpinned by the right capital structure and improved systems, processes and governance structures and, of course, people.

It will be delivered by a refreshed Board and management leading a Group whose culture is built on transparency and openness, doing the right thing by all our stakeholders and striving for excellence.

On behalf of the Board, I would like to thank all employees for their hard work and dedication. A number of employees, particularly the finance and accounting team and the Group's advisors, have spent significant time to prepare the information contained in this Annual Report. The Board is very thankful for their time and effort. This will be my last Annual Report as Chairman and it has been my privilege to have worked with the Freedom team and fellow board members. I look forward to seeing the Group achieve its full potential in future years.

The AGM is scheduled to be held on 29 January 2021 with details available on the Group's website. There will be no final dividend declared for FY20.

I'd encourage you to read the CEO report as it will provide more insight into the operations and future direction of the business.



Perry Gunner  
Chairman

## Chief Executive Officer's Letter

Dear Shareholders and other stakeholders,

In my first letter to you as the Interim CEO of Freedom Foods Group, I will use the opportunity to highlight the sharpened focus of the business since I assumed the role in August 2020 and what I see as the priorities for our Group in the coming year and beyond.

The business of Freedom Foods has always been about “making food better”. That has underpinned our success in creating a leading food and beverages business with recognised brands and that focus will not change.

However, the challenges of the past year have shown us that if we are going to succeed, we also need to make the business better. We need to continue to apply the values of our brands to the Group itself – quality, honesty, trust and innovation.

To do this, we are focusing on three key areas of improvement: People and Culture; Business Discipline and Brands and Marketing.

### People and Culture

Freedom Foods Group is a major Australian manufacturer and, with its six manufacturing sites in NSW and Victoria, is a significant employer in regional Australia. Our more than 700 people are the key to our success, and the role of the executive leadership team is to provide them with the environment, systems and the support they need to succeed. In that respect, there are important changes underway.

Freedom Foods has gone through considerable growth over the last few years, both in revenue and assets. Its systems and processes did not move at the same rate. The capacity of our people to make their most effective contributions were held back, not just by systems and processes but also by culture. It is a tribute to the commitment of our employees that the Group has been able to overcome many of these matters to build successful brands.

As with any business, leadership starts at the top. As a new leadership group, together with new Board members, we are embarking on a program to restructure the organisation to ensure silos cannot stifle collaboration and innovation, to ensure policies and procedures are applied uniformly across the business, to ensure all employees are treated with respect, and to unite our workforce behind one clear, coherent and consistent vision.

That vision is built around our commitment to safety and quality. That commitment is essential to building and maintaining consumer confidence, trust and loyalty in our products. And it is equally essential to the way we operate as a business.

Specifically, we have implemented:

- clearer reporting lines that are designed around business outcomes;
- senior leadership initiatives focussed on building the culture within the team;
- an improved governance, compliance and risk framework to ensure that risks are identified and escalated, and that accountability flows through the business; and
- a new internal audit function.

In addition, the Board is conducting a cultural review of the business and has endorsed a new remuneration framework that ensures employee incentives are aligned with sustainable, long-term profit growth and encourages the right behaviours.

Together with the Board, we want a transparent organisation where everyone knows what we stand for and where we are recognised amongst employees, suppliers, customers for doing what we say we will do.

### Business Discipline

Drawing on the lessons of the past few years, the Group must be able to read and respond to markets and to prioritise and invest capital effectively. To be successful we need to better understand the revenue and profit levers in the business and the individual impact of each component of the costs of goods sold.

Only when everyone genuinely is accountable for their contribution to the business can we deliver the sustainable, profitable growth our shareholders expect and deserve.

Across the business, we are reviewing the economics of every product line, every site, every sales channel and every market segment to ensure we are focused on those with the greatest potential. We are removing products that are not delivering value and investing in the ones that are.

Freedom Foods needs to become a simpler business, and we are identifying and removing unnecessary layers of complexity in manufacturing, marketing and the product suite which add costs, waste and risks to the business. This review process may result in the divestment or closure of non-core assets and/or businesses.

We are working with our valued suppliers and customers to ensure our key contracts work for both parties. Like our employees, we want relationships built on trust and mutual benefits.

We are looking at all options to maximise the value and utilisation of our existing facilities, particularly the Shepparton plant. We are finishing the installation of remaining capital projects to enhance efficiencies across the sites.

### **Marketing and Brands**

Central to our strategy to simplify the Freedom Foods Group business, is the ongoing review of our entire product portfolio. The consequence of launching too many products for immaterial market gains is the introduction of costs, risks and waste into our manufacturing processes, the dilution of the effectiveness of our marketing budgets and reduced margins.

We need to remove complexity and focus on core brands and on core products within those brands. Where we have market leadership, we need to defend and grow it, not dilute it.

The first phase of the product review has already identified products that need to be removed or re-priced and there will be further changes in our portfolio in the coming 12 months.

Our marketing budgets will be as focused as our product portfolio, ensuring every activity is consumer-led and every dollar is spent effectively to drive sales.

### **Environment and Sustainability**

As we move into a new era, sustainability will continue to be a key focus of Freedom and the team. We are continuing to work through initiatives that are already in place, such as the solar energy project at Shepparton that is already delivering more than 20 per cent of our energy needs. Our simplification program has the potential for a meaningful reduction in waste - something that makes sense from both a cost and environmental perspective. The Group is developing a comprehensive environmental, social and governance (ESG) framework to improve its ESG performance strategy and profile.

### **Looking ahead**

There is enormous potential within Freedom Foods. Our key production facilities are best-in-class and we have significant growth opportunities, particularly in our plant-based beverages, nutritionals businesses and the export channel. We have enviable customer loyalty, a committed workforce and an engaged community of farmer suppliers and customers.

Realising our full potential will involve genuine changes across the business, but it will not happen overnight. This is a substantial undertaking.

With the right culture, people, capital structure, systems and discipline across all components of the business – from manufacturing to marketing – I am confident we can reclaim our standing as one of Australia's most promising food and beverages businesses.

Yours sincerely,



Michael Perich  
Interim Chief Executive Officer

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'Freedom' or the 'Group') consisting of Freedom Foods Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

### 1. Principal activities

Freedom is a leading consumer branded food and beverage group with over 700 staff operating in six locations across Australia and two locations in Asia (Singapore and Shanghai).

The principal activities of the Group during the financial year were:

- developing, sourcing, manufacturing, selling, marketing and distribution of plant-based and dairy beverages, dairy and nutritional products to wholesale and consumer markets;
- developing, sourcing, manufacturing, selling, marketing and distribution of specialty cereal and snacks to wholesale and consumer markets;
- selling, marketing and distribution of canned specialty seafood to consumer markets; and
- an investment in dairy farming operations.

The Group operates marketing, sales and distribution activities in Australia, China and South East Asia and sells products to retailers and distributors in New Zealand, South Africa and the Middle East.

There were no significant changes in the nature of the principal activities during the financial year, with the exception that the Group has commenced the withdrawal from operating activities in North America.

The Company is of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that instrument to the nearest thousand dollars or in certain cases to the nearest dollar.

The financial statements are presented in Australian dollars.

### Going concern

The Group has prepared the financial statements for the year ended 30 June 2020 on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group made a loss after tax for the 2020 financial year of \$174.5m (FY19- a restated loss of \$145.8m) and net cash outflows from operating activities of \$93.9m (FY19 \$132.7m). At 30 June 2020, the total borrowings of the Group were \$292.3m which have been classified within current liabilities. As a result, the Group had net current liabilities of \$280.4m at 30 June 2020 (FY19: net current assets of \$20.9m).

In response to the financial issues affecting the Group, the directors and management have taken a number of significant measures to stabilise the business and improve its future performance.

The Group obtained a waiver from its financiers in respect of non-compliance with lending covenants at 30 June 2020 and subsequently entered a standstill agreement in September 2020 which remains in effect to 29 January 2021. Subsequent to the balance date, a related party of the majority shareholder has guaranteed additional general-purpose funding in the form of a \$45m Subordinated Secured Facility, subject to various obligations including compliance with the terms of the standstill agreement. While Note 20 to the financial statements sets out the additional undrawn facilities that the Group had at its disposal at 30 June 2020, these undrawn amounts were cancelled as part of the standstill arrangements and replaced by the \$45m subordinated facility.

The standstill agreement has given the Group the opportunity to investigate and remedy a number of operating and financial matters. The Directors and management have identified opportunities to improve the operating and financial performance of the business. A critical element of this is the recapitalisation of the Group to provide the necessary funding for the business to meet its short and long-term financial requirements.

The Group needs to refinance its existing debt with more flexible capital that provides the Company the necessary runway to turn the business around and return to profitability and future growth. The Group explored a number of alternative recapitalisation options with a focus on seeking a solution that provides capital and operational expertise in implementing the turnaround. The Group is currently in exclusivity with a counterparty on a recapitalisation by way of a listed secured subordinated convertible note, noting the intent to allow for shareholder participation. The purpose of the fund raising is to allow the Group to reduce its existing senior finance facilities and to provide additional working capital. The Group is working with that counterparty to finalise its due diligence, the respective terms and offer document and is targeting to announce a fund raising by mid December 2020 with closing by 29 January 2021. The Group's major shareholder and lenders are supportive of the transaction. The Group is working with its existing lenders on negotiating revised terms for continuing facilities after the proposed secured subordinated convertible note is issued.

Whilst the proposed fund raising is at an advanced stage, there remains a risk that this will not complete. Key risks to the proposed fund raising include satisfactory completion of the counterparty's due diligence, regulatory approvals, and other conditions precedent typical for a transaction of this nature. The on-going support of the Group's major shareholders and lenders both in the period prior to, and subsequent to, the proposed fund raising is critical to the ability of the Group to continue as a going concern. The business requires improvement in its operating and financial performance, this is also critical to ensuring support for the transaction and continuing to operate subsequent to any fund raising.

In the absence of the fund raising being completed, the Directors in consultation with their advisers will reassess the options available at that point in time, including requesting a further extension of the standstill agreement, and/or commencing a process to sell non-core businesses and or assets.

In addition, the Group's current cashflow forecasts indicate that a further injection of short-term working capital is likely to be required in January 2021. The Directors are confident that should a temporary deficiency in working capital arise it can be bridged in a number of ways including improved working capital management, outperformance of forecasts, and/or additional support from the Group's lenders or its majority shareholder.

The Directors believe they will be successful in one or more of the above plans and accordingly, the financial report has been prepared on a going concern basis.

Should any of the above matters not occur, a material uncertainty would exist which would cast significant doubt on the Group's ability to continue as a going concern and therefore whether it would be able to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

### 3. Operating and financial review

The Group recorded a loss after income tax benefit for the year ended 30 June 2020 attributable to the owners of Freedom Foods Group Limited of \$174.5m (FY19 restated: loss of \$145.8m).

The Group recorded an EBITDA loss of \$96.7m (FY19 restated: loss of \$118.6m). Adjusted EBITDA is a non-IFRS measure and is reconciled to the reported loss after income tax benefit in section 3.3 below.

#### 3.1 Overview of material matters during the year and subsequent to year end

This section describes:

- the significant events that have occurred in the FY20 year; and
- the material matters, events and decisions taken by the Group following the initial voluntary suspension announced in June 2020 until the publication of this report.

#### Voluntary suspension

On 24 June 2020, the Group requested a trading halt and then on 25 June 2020 a voluntary suspension until 8 July 2020. The Group extended its voluntary suspension until 31 October 2020. The Group subsequently extended the voluntary suspension to 30 November 2020 and has requested a further extension to 15 December 2020 to enable sufficient time to finalise its financial position, resolve discussions with its lenders and prepare for a recapitalisation.

### Key Executive changes

Rory J.F. Macleod ceased to be CEO & Managing Director, effective 30 June 2020. Campbell Nicholas ceased to be Company Secretary and CFO, effective 23 June 2020. Amine Haddad ceased to be CEO Group Commercial, effective 9 June 2020. The Board appointed Brendan Radford as Acting CEO, Stephanie Graham as Acting CFO and Perry Gunner as Executive Chair on 24 June 2020. On 6 August 2020, the Board appointed Michael Perich as Interim CEO, Perry Gunner ceased as Executive Chair and reverted to Non-Executive Chair and Brendan Radford returned to his previous role as CEO Commercial Operations. Brendan Radford ceased to be CEO Commercial Operations on 25 September 2020. The Company announced the appointment of Josée Lemoine as Group CFO on 1 October 2020. The Company appointed a General Manager of Internal Audit, Tim Phoon commencing on 23 November 2020. The Company announced the appointment of Justin Coss as Group General Counsel and Company Secretary, commencing on 23 November 2020. Interim Company Secretary Scott Standen will oversee an orderly transition of company secretarial matters.

### Board changes

During the year, two new independent Non-Executive Directors were appointed to the Board, Genevieve Gregor and Jane McKellar. Genevieve Gregor is Chair of the Board Risk and Compliance Committee and Jane McKellar is Chair of the Board People and Culture Committee.

Timothy Bryan was appointed as Alternate Director for Anthony M. Perich and Ronald Perich. Concurrent with the appointment of Michael Perich as Interim CEO on 6 August 2020, Michael Perich resigned as an Alternate Director for Ronald Perich.

The Non-Executive Chairman Perry Gunner is not seeking re-election at the next AGM and Non-Executive Director Trevor Allen intends to retire from the Board at the next AGM. The Board renewal process will continue.

### Impacts of COVID-19

The COVID-19 pandemic and associated government responses have affected the Group's businesses in a number of ways:

- **Operations:** The Group implemented or enhanced employee health and safety measures, shift protocols, well-being programs and flexible and remote work practices. These measures kept employees safe and ensured no major interruptions to operations, including at the Group's operations in Victoria. The Group benefitted from the support of strategic partners in managing supply chain continuity, in particular during increases in demand. The Group did not access JobKeeper wage subsidies or other government support programs.
- **Consumer response:** COVID-19 and government-imposed lockdowns temporarily changed consumer behaviours, with a fall in the out-of-home channel offset by an increase in the grocery channel due to panic buying, particularly UHT products. Demand in the domestic out-of-home channel has since recovered to pre-COVID levels, although demand has shifted to suburban rather than CBD outlets. Demand for cream remains lower than pre-COVID levels. Consumer nutritional sales were impacted by gym and specialty store closures, with Group demand down in the H2 FY20. The re-opening of these facilities has been reflected in an improvement in demand.
- **Financial impact:** COVID-19 adversely affected revenue and profitability. Margins in the grocery channel are materially lower than out-of-home and the decline in out-of-home sales affected EBITDA in the second half of FY20. Cream pricing was adversely affected during the peak COVID-19 period as customers closed facilities, leading to an oversupply in the market and pricing remains below long-term trends. There was a significant decline in exports to China and South East Asia in the H2 FY20 and export sales continue to trend below pre-COVID expectations. As part of cost-management initiatives, the Group initiated a warehouse rationalisation program and implemented a redundancy program, with 62 roles being made redundant in May and June 2020. The Group has also restricted capital expenditure.

## Operations

The Group's operating and statutory financial performance in FY20 has been affected by the following matters:

- **Site operations:** The Group experienced delays in the commissioning of new capacity at its Shepparton plant, resulting in higher wastage, under-recovery of protein and lower-than-anticipated yields of lactoferrin. The Group is now achieving more consistent operational performance at Shepparton, with the lactoferrin plant producing materially higher volumes in line with design expectations. Cereal and Snacks operating facilities at Leeton, Dandenong and Darlington Point have been underutilised. The Group has commenced a full strategic review of the Cereal and Snacks segment.
- **Costs:** Unrealistic operational costing budgets have resulted in prices being set too low for some products, resulting in unprofitable sales. The Group has commenced a full review of all product lines.
- **Milk supply:** Delays in plant commissioning and planning decisions resulted in surplus milk supply being traded at a loss. The Group has implemented thorough planning processes to ensure that supply is better matched with demand.
- **Trade spend:** Some trade spending in the retail channel, particularly in the Cereal and Snacks segment, was ineffective, which adversely affected profitability. Trade spending policies have been reviewed, with funding reduced and re-focused.
- **New product development:** New product development expenditure, particularly in the Cereal and Snacks segment, did not achieve anticipated returns. In line with its full review of all product lines, the Group has adopted a more focused approach to new product development decisions.

## Board investigations

Following the Board identifying matters regarding the operation and administration of the Group's equity incentive plan (EIP), the Board initiated an investigation with the assistance of external advisers.

The implementation of a warehouse consolidation program led to the identification in May 2020 of out-of-date, unsaleable, and obsolete inventory and other inventory accounting matters. These matters were reported in the ASX announcements of 29 May 2020 and 25 June 2020. The Board commissioned a further investigation of the Group's financial position in June 2020, with the assistance of external advisors including PwC, Moelis Australia, Arnold Bloch Leibler and Ashurst. A range of additional matters were identified, which are outlined below in the prior periods' restatement.

The Company is cooperating with ASIC in relation to these investigations.

## Prior periods restatement and current year impacts

As referred to in Note 3 of the Financial Statements, the Group has made the following adjustments which impact the opening position in its financial statements as at 1 July 2018, the performance and position reported at 30 June 2019 and the current year results:

1. a reduction in the value of property, plant and equipment in respect of costs previously capitalised during the commissioning phase of the Group's capital investment program which is now drawing to completion. The Group has determined that a proportion of these costs are more appropriately treated as expenses or have not been sufficiently able to be identified as directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Revenues generated from products produced during the commissioning phase have been deducted from the cost of property, plant and equipment. Changes have been made to the expected useful lives of property, plant and equipment at the time of their transfer from capitalised work in progress to depreciable plant and equipment. Previously unrecognised land and building revaluations have been recognised in the relevant periods. Associated adjustments to capitalised interest and depreciation have also been recognised as well as current year impairment of unused assets (\$5.5m);
2. impairment of intangible assets (goodwill) and property, plant and equipment in prior periods in the Dairy and Nutritionals CGU (\$31.6m goodwill) and the Cereal and Snacks CGU (\$23.0m goodwill, \$4.9m brands and \$42.5m property, plant and equipment) given the restated loss making performance of these businesses. Current year impairments of right of use assets (\$4.1m) and Specialty Seafood (\$5.1m goodwill and \$10.6m trademark) have also been recognised;
3. Inventory write-downs and write-offs occurred, relating to out of date, obsolete, unsaleable, unable to be located and overvalued stock relative to net realisable value, much of which was produced during the commissioning phase of new equipment;

4. a reduction in the value of capitalised new product development costs as a result of a review of the nature of the costs capitalised and associated changes to amortisation;
5. a reduction in revenues and receivables for items which were not deemed to have met the revenue recognition criteria in prior periods, arising from a review of year end cut off deadlines;
6. writing off various aged receivable or other assets balances which were not recoverable;
7. increase in prior period accruals for trade marketing and trade promotional expenditure;
8. restatement of the carrying value of equity accounted investments to reflect the proportion of earnings derived in each year;
9. an increase in prior periods' share based payments expense arising from written invitations made to employees in September 2014 accepted by those employees which were not authorised by the Board. AASB 2 requires the Group to account for the obligation and expectations created by the correspondence as if the issue had been authorised by the Board. This requires calculation of share based payments expense in respect of the September 2014 invitations for the period from September 2014 until the expiry of the invitation in September 2019;
10. recognition of lease payments under operating leases as expense on a straight-line basis over the lease term as required by AASB 117 (previous accounting standard on Leases);
11. recognition of a make good provision to meet the Group's obligations at the time of returning leased property;
12. recognition of onerous property contracts;
13. derecognition of duplicate accruals;
14. reclassification of related party loan;
15. translation of foreign currency dominated loan;
16. restatement of the prior periods' tax balances to reflect the impact of the above.

A summary of the effect of the above matters in FY20, FY19 (restated) and FY18 and prior (restated) is set out below:

	Ref	2020 \$'000	2019 \$'000	Consolidated adjustments 2018 and prior \$'000	Total \$'000
Property, plant and equipment (increase) / decrease	1, 2	102,046	108,254	162,512	372,812
Goodwill and brand names (increase) / decrease	2	16,395	-	59,481	75,876
Inventories (increase) / decrease	3, 5	19,364	26,363	14,376	60,103
Capitalised New product development (increase) / decrease	4	-	19,286	19,570	38,856
Trade and other payables increase / (decrease)	3, 7, 10,13	839	6,663	15,284	22,786
Trade and other receivables (increase) / decrease	5, 6	4,262	7,220	10,620	22,102
Provisions and other increase / (decrease)	11, 12, 14, 15	-	(1,755)	6,134	4,379
Right of use assets (increase) / decrease	2	4,151	-	-	4,151
Share Based payments increase / (decrease)	9	-	469	5,078	5,547
Equity accounted investments increase / (decrease)	8	-	246	487	733
Deferred tax increase / (decrease)	16	(2,445)	(15,874)	2,053	(16,266)
		144,611	151,320	295,594	591,526

FY20 adjustments have been determined considering the impact of the above matters on a basis consistent with that in FY19 and FY18 and prior in the restated accounts.

As a result of the adjustments referred to above, the interim financial report issued for the half year ended 31 December 2019 will also need to be restated and therefore should not be relied upon. The December 2019 accounts will be restated as part of the process of reporting the Group's results for the half year to 31 December 2020.

#### Bank facility amendments (subsequent event)

On 11 September 2020, the Group entered into a standstill agreement with its primary lenders, National Australia Bank Limited and HSBC Bank Australia Limited (Banks), pursuant to which the Banks have agreed until 29 January 2021, not to take any action against the Group in respect of any amounts owing to the Banks under the Group's financing agreements with the Banks, unless the Group commits a breach of the standstill agreement. As the standstill agreement is expiring in January 2021, it is considered appropriate to classify all borrowings as current.

Refer to Note 20 for further information on assets pledged as security and financing arrangements.

#### **Recall (subsequent event)**

The Group conducted a recall in September 2020 of certain batches of plant-based beverages. The recall applied only to the specific batches. The issues that resulted in this recall have been fully resolved. The Company has insurance to cover the costs of the recall, subject to an excess of \$500,000.

#### **Blue Diamond Proceedings (subsequent event)**

Legal proceedings have commenced in both Australia and the United States between Blue Diamond Growers (Blue Diamond) and certain Group subsidiaries including Freedom Foods Pty Ltd (FFPL). Further details can be found in the ASX release dated 30 September 2020.

Blue Diamond Claim seeks:

- compensatory and general damages for breach of the Licence Agreement, which Blue Diamond asserts to be at least US\$16 million;
- compensatory and general damages for breach of an alleged oral agreement; and
- specific performance of the Licence Agreement.

The Group disputes Blue Diamond's claims and is defending its position. No contingent liabilities or contingent assets are recognised in the financial statements in respect of these proceedings.

#### **Recapitalisation**

Further detail with regard to capital raising can be found in the results presentation dated 30 November 2020.

Except as disclosed, no matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect, the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

### **3.2 Business strategy**

Freedom Foods Group's mission is to make food better.

The Group's core strategy is to execute on an organisational transformation program that will position the business for profitable growth. Comprehensive strategic and operational reviews are underway and operational efficiency programs are being undertaken at all sites.

This transformation program will result in an increased focus on costs and individual product profitability, rationalised product portfolio, plant efficiency initiatives and focus on the Company's core high-growth and high-margin businesses, particularly plant-based beverages and protein-based nutritionals.

The Group is reviewing its portfolio of businesses. The review may result in the future divestment or closure of non-core assets and/or businesses.

### **3.3 Group operating and financial review (all comparatives refer to restated FY19)**

Set out below is a summary statement of profit and loss for the year ended 30 June 2020 together with a restated summary statement of profit and loss for the year ended 30 June 2019. The restated summary statement of profit and loss for the year ended 30 June 2019 reflects the accounting changes required to incorporate the effect of the matters discussed above on the profit and loss of the group for that period.

	Consolidated	
	2020	2019
	\$'000	restated \$'000
Net sales	580,191	461,768
EBITDA	(96,675)	(118,586)
Share of associates profit/(loss)	586	(253)
Depreciation and amortisation	(30,626)	(18,120)
Impairment	(26,082)	-
Net finance costs	(21,812)	(9,719)
Net loss before tax	(174,609)	(146,678)
Income tax benefit	101	851
Net loss after tax	(174,508)	(145,827)

#### Adjusted EBITDA\*

The following table adjusts EBITDA for various non-trading and non-recurring items:

	Consolidated	Consolidated
	2020	2019
	\$'000	restated \$'000
EBITDA	(96,675)	(118,586)
Additional inventory provision	18,027	18,264
Restructuring expenses	1,443	194
Additional debtor provisioning	3,572	1,800
Acquisition costs	861	1,336
Discount charge - limited recourse facility	1,471	1,150
Unrealised foreign exchange loss	(8)	1,589
Share based payments	(417)	6,247
Other non-trading expenses	(35)	-
Adjusted EBITDA (post AASB 16)	(71,761)	
Adjusted EBITDA (pre AASB 16)	(86,537)	(88,006)

\* Adjusted EBITDA (Earnings before interest, tax, depreciation and amortisation) is a non-IFRS measure as contemplated in ASIC Regulatory Guide 230 Disclosing non-IFRS financial information (RG230). Adjusted EBITDA is used by management and the directors as the primary measures of assessing the financial performance of the Group and individual segments. Adjusted EBITDA excludes abnormal items including the additional inventory provisions above a normalised level and other abnormal expenses including acquisition costs, restructuring costs and other non-trading expenses.

#### 3.3.1 Commentary on specific items in the profit and loss account

**Net sales** increased by 26% to \$580m, split between net sales increases of 24.7% to \$470.2m for domestic sales and 28.7% to \$109.8m for export sales. Sales of Dairy and Nutritionals products for industrial and retail use rose 37% to \$363.0m, reflecting increasing utilisation of our expanded production facilities, albeit less than expectations. Increasing market acceptance of plant-based milks provided in UHT format for use in the home and in out-of-home trade contributed to a rise in net sales of Plant-based Beverages of 35% to \$132.3m. Export sales to South East Asian markets, rose by 261% to \$34.4m, reflecting increasing market acceptance of our Australia's Own and MILKLAB dairy brands. Export sales of UHT dairy milk products to China rose by 7.7% to \$60.1m notwithstanding COVID-19 impacts, led by increased sales to strategic contract packing customers. Cereal and Snacks sales were disappointing in both Australia and Asia in many product lines, with total sales of \$69.9m, a fall of 13.6%.

**Adjusted EBITDA** (pre AASB 16) losses decreased by 1.7%, from \$88.0m to \$86.5m. While higher profitability was obtained from our plant-based products and from the commencement of bulk nutritional sales of lactoferrin and similar products, the contributions from these areas were outweighed by selling many products at prices insufficient to recover production and operating costs, and the level of discounts and trade support needed to support revenue growth. Contributing factors included operating well below capacity at the Leeton and Dandenong plants, with reduced levels of operating efficiency during the Shepparton production facility expansion (this was reflected in high milk wastage levels). There was a 23% increase in selling and distribution costs – including excess transport and logistic costs as a result of holding high levels of inventory. A 14% increase in marketing costs also contributed to EBITDA losses.

**Depreciation** charges increased by 69% from \$17.5m in FY19 to \$29.5m in FY20. The increase in depreciation reflected a transfer of most of the capital work in progress of the Shepparton expansion project to fixed assets and the introduction of AASB 16, the new lease accounting standard. The split in depreciation charges between traditional plant and equipment depreciation and AASB 16-related depreciation is as follows:

Depreciation – buildings, plant and equipment: \$19.5m  
Depreciation – AASB 16 related: \$9.9m

**Net finance costs** increased by 124% from \$9.7m to \$21.8m, largely as a result of the adoption of the AASB 16 lease accounting standard from 1 July 2019. The standard changed the accounting treatment of lease payments substantially by requiring entities to record a lease liability on balance sheet at the present value of future rental payments, which increases through an interest expense through the profit and loss account over the lease term. The split of finance costs between interest paid and the AASB 16-related finance charge was as follows:

Interest – based on debt facilities \$9.9m:  
Interest – AASB 16 related: \$11.9m

**Impairments of brands, goodwill and right of use assets** amounted to \$20.5m in FY20 (nil in FY19) resulting from a reduction in the carrying value of right of use assets and intangible assets in the consumer nutritionals and Specialty Seafood cash generating units.

**Inventory provisions** of \$18.5m (FY19 26.7m) were recognised during the year and included in costs of sales. An amount of \$18.0m (FY19 \$18.3m) was in excess of a normal level of provisioning due to commissioning the Shepparton dairy manufacturing site and unsuccessful product development in the Cereal and Snacks division

**Income tax expense** is nil in FY20 given the Company's loss-making position.

### 3.3.2 Segment performance

The Group measures its financial and operating performance by reference to the following segments:

Dairy and Nutritionals	A range of UHT (long life) dairy milk beverage, nutritional products and performance and adult nutritional powders. These products are manufactured in Australia and sold in Australia and overseas.
Plant Based Beverages	A range of UHT (long life) food and beverage products including liquid stocks, soy, rice and almond beverages. These products are manufactured in Australia and sold in Australia and overseas.
Cereal and Snacks	A range of products for consumers including allergen free, nutritional oat based, low sugar or salt, highly fortified or functional. The product range covers breakfast cereals, snack bars and other complementary products. These products are manufactured and sold in Australia and overseas.
Specialty Seafood	A range of canned seafood covering sardines, salmon and specialty seafood. These products are imported into Australia and sold in Australia and New Zealand.

Set out below is the segment performance for the Group for the year ended 30 June 2020, together with a restated segment performance table for the year ended 30 June 2019.

Consolidated 2020	Dairy and Nutritional	Plant Based	Cereal and	Specialty	Unallocated Shared Services	Total
	Ingredients \$'000	Beverages \$'000	Snacks \$'000	Seafood \$'000	\$'000	\$'000
Revenue	362,922	132,319	69,905	15,045	-	580,191
EBITDA	(52,446)	17,013	(34,270)	203	(27,175)	(96,675)
Additional inventory provisioning	10,902	3,856	3,269	-	-	18,027
Restructuring	403	129	133	19	759	1,443
Additional debtor provisioning	-	3,013	559	-	-	3,572
Acquisition costs	-	-	-	-	861	861
Discounting charge - limited recourse facility	-	-	-	-	1,471	1,471
Unrealised foreign exchange loss	-	-	-	-	(8)	(8)
Share based compensation	-	-	-	-	(417)	(417)
Other non-trading expenses	(572)	306	(40)	-	271	(35)
Adjusted EBITDA (post AASB 16)	(41,713)	24,317	(30,349)	222	(24,238)	(71,759)
Adjustment for rental expense	(4,343)	(7,086)	(1,756)	-	(1,591)	(14,776)
Adjusted EBITDA (pre AASB 16)	(46,056)	17,231	(32,105)	222	(25,829)	(86,535)
Consolidated 2019 restated	Dairy and Nutritional	Plant Based	Cereal and	Specialty	Unallocated Shared Services	Total
	Ingredients \$'000	Beverages \$'000	Snacks \$'000	Seafood \$'000	\$'000	\$'000
Revenue	264,780	101,523	80,938	14,527	-	461,768
EBITDA	(49,282)	(6,475)	(34,175)	(3,593)	(25,061)	(118,586)
Additional inventory provisioning	11,734	3,239	2,569	722	-	18,264
Restructuring	101	47	38	7	-	194
Additional debtor provisioning	1,800	-	-	-	-	1,800
Acquisition costs	-	-	-	-	1,336	1,336
Discounting charge - limited recourse facility	-	-	-	-	1,150	1,150
Unrealised foreign exchange loss	-	-	-	-	1,589	1,589
Share based compensation	-	-	-	-	6,248	6,248
Adjusted EBITDA (pre AASB 16)	(35,647)	(3,189)	(31,568)	(2,864)	(14,738)	(88,006)

The 'Unallocated Shared Services' group consists of the Group's shared service functions that are not separately reportable and provide support services to other reportable operating segments.

### 3.3.3 Segment performance (FY20 adjusted EBITDA is pre AASB 16 and all comparatives refer to restated FY19)

#### Dairy and Nutritionals

The Group experienced increased revenues through the grocery channel as a result of price increases in January 2020, panic buying in March 2020, a net increase in exports to Asia (despite the impacts of COVID-19) and increased industrial nutritionals sales. The adjusted EBITDA for the segment was a loss of \$46.1m, an increase of 29.5% over the FY19 loss of \$35.6m. Performance was adversely impacted by selling prices not fully recovering costs of production in a number of products, the delayed commissioning of the lactoferrin plant, delayed commissioning of the UHT expansion and losses from the sale of excess milk. Inventory write-downs and write-offs occurred, relating to out of date, obsolete, unsaleable, unable to be located and overvalued stock relative to net realisable value. Given the under-utilisation of plant and equipment, overheads were not fully recovered. The segment is now consistently producing and delivering high specification lactoferrin. Utilisation of the plant is improving, focused controls around yield and recovery have been implemented and a review of product lines is underway. The Group is focused on returning this segment to profitability in FY21. Demand for consumer nutritionals was negatively impacted by COVID-19 but performance has now stabilised and is expected to improve through expanding the product range for distribution into pharmacies and specialty stores.

#### Plant-based Beverages

The plant-based beverages segment experienced strong growth across all channels and all brands during the year. The adjusted EBITDA for the segment was a profit of \$17.2m compared to a loss of \$3.2m in FY19. This result was obtained notwithstanding the impact of COVID-19 when out-of-home and export demand was disrupted during the peak lockdown periods in the third and fourth quarter of FY20. Volumes are recovering and profitability continues to improve in the out-of-home channel. The Group anticipates improvements across the various channels as manufacturing and distribution economies of scale are realised. MILKLAB enjoys strong brand loyalty in a segment experiencing a shift to consumption of plant-based beverages. This is a profitable channel for the Group's owned brands with further opportunities for growth through new product development and geographic expansion.

#### Cereal and Snacks

Revenues have declined in this segment due to the exit from some contract manufacturing and reduced sales into Asia, partially offset by increased grocery sales that benefited from panic buying during COVID-19 in H2 FY20. The adjusted EBITDA for the segment was a loss of \$32.1m, compared to a loss of \$31.6m in FY19. The Group's key brands of Messy Monkeys, Heritage Mill and Crankt all grew sales during the year, however Arnold's Farm was affected by reduced demand from China. Selling prices for a number of products did not fully recover the costs of production. Dependence on grocery channels, which are generally lower margin, leaves little flexibility to grow profitability and places an over-reliance on trade marketing to grow volumes and introduce new brands. The Group is reviewing this segment. The review may result in the future divestment or closure of non-core assets and/or businesses.

#### Specialty Seafood

Revenue was relatively flat in this segment despite a fall in volumes following price increases caused by higher seafood input prices and adverse exchange rate movements. Profitability in FY20 improved as a result of the price increases plus rationalisation of trade marketing spend. The adjusted EBITDA for the segment was a profit of \$0.2m compared to a loss of \$2.9m in FY19. The segment's intangible assets were impaired during FY20. The Group is reviewing this segment. The review may result in the future divestment or closure of non-core assets and/or businesses.

### 3.4 Statement of financial position (all comparatives refer to restated FY19)

Set out below is a summary balance sheet as at 30 June 2020 together with a restated summary balance sheet as at 30 June 2019. The restated summary balance sheet as at 30 June 2019 reflects the matters discussed above on the financial position of the Group as at that date.

	Consolidated	
	2020 \$'000	2019 restated \$'000
Current assets	146,536	208,227
Non-current assets	535,366	347,280
Total assets	<u>681,902</u>	<u>555,507</u>
Current liabilities	(426,921)	(187,344)
Non-current liabilities	(193,982)	(133,506)
Total liabilities	<u>(620,903)</u>	<u>(320,850)</u>
Net assets	<u>60,999</u>	<u>234,657</u>

	Consolidated	
	2020 \$'000	2019 restated \$'000
Share capital	598,712	589,123
Reserves	(55,851)	(44,750)
Accumulated losses	<u>(481,862)</u>	<u>(309,716)</u>
Total equity	<u>60,999</u>	<u>234,657</u>

**Trade and other receivables** decreased by 8.2% from \$69.9m to \$64.2m, reflecting increased usage of the debtor sale facility. Debtors days decreased from 72 days to 60 days.

**Inventories decreased** by 25% from \$79.5m to \$59.8m, reflecting the writedown of inventory. Inventory turnover days decreased from 33 days to 29 days.

**Trade and other payables** decreased by 4.6% from \$129.4m to \$123.4m, reflecting the completion of substantially all of the capital expenditure programs. Since the end of FY20, significant effort has gone into reducing the level of aged creditors.

**Property, plant and equipment** increased by 10.2% from \$270.7m to \$298.4m, reflecting the finalisation of the major capital expenditure program at Shepparton. There is no significant capital expenditure currently under consideration by the Group, with the focus on maximising efficiencies from the existing asset base.

**Intangibles** decreased by 30.6% from \$53.0m to \$36.8m reflecting impairments to the carrying value of brands and goodwill across the Specialty Seafood segment and consumer nutritionals CGU. The goodwill and the carrying value of the Specialty Seafood brands have been impaired reflecting a deterioration in the outlook for this segment

**Deferred tax liabilities** remain at \$nil. The full extent of the potential tax benefit has not been recognised due to the number of years that it will take for tax losses to be utilised. This position will be reassessed on an annual basis.

**Net borrowings** increased by 125% from \$122m to \$275.2m due to operating losses and the finalisation of the major capital expenditure program. Further detail on cashflow and funding is discussed below.

**Shareholders equity** decreased by 74% from \$234.7m to \$61.0m, reflecting primarily the loss incurred by the Group in FY20, which includes the impact of all operating and accounting matters discussed above.

### 3.5 Commentary on cashflow and funding

	Consolidated	
	2020 \$'000	2019 restated \$'000
Cash flow from operating activities	(94,245)	(129,909)
Cash flow from investing activities	(28,446)	(78,420)
Cash flow from financing activities	84,473	165,608
Net decrease in cash and cash equivalents	<u>(38,218)</u>	<u>(42,721)</u>
Cash and cash equivalents at the beginning of the financial year	<u>55,385</u>	<u>98,106</u>
Cash and cash equivalents at the end of the financial year	<u><u>17,167</u></u>	<u><u>55,385</u></u>

The Group had an operating cash outflow for the last two years, as a result of selling many of its products at prices insufficient to recover production and operating costs, and the level of discounts and trade support needed to support revenue growth. Contributing factors included operating below capacity at Leeton and Dandenong and with reduced levels of operating efficiency during the Shepparton production facility expansion.

Expenditure on investing activities decreased in FY20, as the major Shepparton expansion project was largely completed.

Cash obtained from financing activities decreased in FY20, as both operating and investing cashflow demands were reduced. In FY20, funds were obtained primarily from the Group's finance facilities, whereas in FY19 additional funds were obtained from the equity raising completed in May 2019.

### 4. Dividends

On 27 February 2020, the directors declared an unfranked interim dividend of 2.25 cents per share to the holders of fully paid ordinary shares in respect of the half year ended 31 December 2019. On 29 May 2020, the Company announced that it was cancelling the dividend declared on 27 February 2020. There will be no final dividend declared for FY20.

Dividends paid during the financial year were as follows:

	Consolidated	
	2020 \$'000	2019 restated \$'000
Final unfranked dividend of 3.25 cents per ordinary share for the year ended 30 June 2019 paid in cash during the year ended 30 June 2020 (2019: 2.75 cents 50% franked)	2,658	2,445
Dividends reinvested: unfranked at 30% tax rate (2019: 50% franked)	6,211	7,869
Interim 50% franked dividend of 2.25 cents per ordinary share paid in cash during the year ended 30 June 2019	-	1,906
Final unfranked dividend of 1.35 cents per convertible redeemable preference share paid in cash during the year ended 30 June 2020 (2019: 1.35 cents 50% franked)	1	1
Interim 50% franked dividend of 1.35 cents per convertible redeemable preference share paid in cash during the year ended 30 June 2019	<u>-</u>	<u>1</u>
	<u><u>8,870</u></u>	<u><u>12,222</u></u>

## 5. Environment, sustainability, quality and safety

### 5.1 Environmental regulation

The Group's operations are subject to environmental regulation under the laws and regulations of the Commonwealth of Australia, and various Australian State and local regulatory bodies. There were no material breaches of environmental laws, regulations or permits during the year.

### 5.2 Environment and Sustainability Statement

The Group is committed to making a distinctive and positive contribution to its communities and its operating environments. Sustainability is a business method that ensures safety, efficiency and responsibility in a manner that protects the Group's employees, communities, shareholders, and the environment, now and in the future. Our daily operations align business performance with a commitment to environmental, social and community stewardship.

Set out below are examples of work undertaken by the Group:

- Work was completed in February 2020 on a solar power upgrade at our Shepparton plant to optimise energy efficiency. Solar energy has contributed more than 20% of the overall power use at Shepparton since commissioning (equivalent to 5.5 MWh).
- The Group has focused on waste minimisation to landfill. It is working with farmers and biodegradable waste processors to repurpose liquid waste into fertilisers or animal foods. A significant amount of waste product has been diverted from landfill by partnering with a fertiliser manufacturer.
- The Group installed and commissioned a reverse osmosis water treatment plant in April 2020 to improve the water quality at Shepparton. The reverse osmosis water treatment plant produces brine water, which is used in the site's cooling towers, reducing use of town water supply by 60,000 – 70,000 litres per day.
- Shepparton Warehouse lights upgraded to LED. Energy savings are over 400,000 kwh a year.
- The Group supports the Australian Dairy Sustainability Framework, which sets out environmental targets such as reducing greenhouse gas emissions by 30% by 2030. The initiative includes a whole-of-chain approach, including the reduction of greenhouse gas emissions by dairy manufacturers.

### Continuous Improvement and Environmental, Social and Governance

The Group is developing a comprehensive Environmental, Social & Governance (ESG) strategy to improve its ESG performance, reporting and profile. The Group will provide updates on ESG reporting metrics and targets in due course.

### 5.3 Quality and food safety

Quality and food safety is an important foundation for the ongoing success of the Group. The Group strives to achieve quality across the business through its products, services and people. Quality and food safety is intrinsic to the business philosophy and culture. The quality and safety of the products, as well as meeting the requirements of our customers, are high priorities of the Group.

The Group has a range of certification and regulatory bodies independently auditing our sites based on standards including:

- State-based Food Authority audits and Export Registered Facilities audit via the Department of Agriculture, Water, and the Environment;
- Global Food Safety Initiative (GFSI) Standards such as Safe Quality Food (SQF) and British Retail Consortium (BRC);
- HACCP Certification;
- Retailer and customer standards; and
- Product-specific standards, such as Australian Certified Organics and Gluten-Free Certification program.

We continue to review our certification requirements specifically for export markets requirements.

## 5.4 Safety

### Statement of commitment

The Group is committed to providing a workplace that enables all work activities to be carried out safely.

The Group will take all reasonably practicable measures to eliminate or minimise risks to the health, safety and welfare of workers, contractors, visitors and anyone else who may be affected by our operations.

The Group is committed to ensuring it complies with the Work Health and Safety Act 2011 (the Act) and any other relevant legislation and required codes and standards that are applicable to the Group.

The WHS Management Plan and WHS Policies and Procedures set out the safety arrangements and principles which are to be observed by the Group and its workers to ensure compliance with the WHS Act and to provide appropriate mechanisms for continuing consultation and management of WHS matters.

## 6. Risks

The Group considers risk management integral to the achievement of its mission, vision and values.

The Risk and Compliance Committee has, during FY20 and subsequent to the year end, undertaken a comprehensive review of the Group's risk appetite, its risk management framework and its key risks and how they are being managed.

Key initiatives arising from the review that have been completed include:

- approval of a new, revised risk management framework;
- approval of a new compliance policies management framework;
- establishment of a dedicated risk management function within the Group;
- implementation of a new technology-based approach to the management of risk across the Group;
- a comprehensive re-assessment of the Group's risk profile; and
- appointment of a GM Internal Audit.

There are a number of material business risks that have the potential to impact the Group's ability to achieve its objectives. Some of the key risks to which the Group is exposed and Group's approach to managing these risks are summarised below:

Risk Type	Description of the risks	How we manage the risks
Access to financial resources	<p>The Group's business activities require access to equity and debt markets to finance its day-to-day working capital and invest in long-term income-producing assets. Access to these markets can change from time to time based on economic and financial markets conditions, geopolitical issues in the markets in which the Group operates in, the risk appetite of banks and other credit providers, the investment appetite of equity investors, and the view of the Group as a suitable party to extend credit to or invest in.</p>	<p>This financial year, and subsequent to the financial year end, the Group's board and management have devoted significant time and resources to improving the financial management of the Group to allow it to obtain ongoing access to equity and debt markets to assist financing the Group's activities and to meet future needs. The Board has sought additional input from external advisors including PwC and Moelis.</p> <p>The Finance &amp; Audit Committee is focused on continuing to improve the overall financial management of the Group in future periods.</p>
Changing consumer preferences in competitive markets	<p>Consumer tastes and buying preferences in relation to the Group's products are constantly changing. These preference changes can be in response to a range of factors, including new products entering the market, environmental factors, health and nutritional advices, regulation, sales and marketing initiatives by the Group's competitors, and product price changes by the Group and its competitors.</p> <p>The capacity of the Group's competitors to introduce competing products with those of the Group is high. The Group can be at risk of its products being replaced in key channels by products produced by its competitors. Any reduction in the Group's product sales and market shares in each segment may impact its financial performance in the short, medium and long term.</p>	<p>The Group focuses on being a leading innovator in its chosen product and channel segments. This focus has, in recent years, seen the launch of numerous products in existing and new segments. The Group seeks to maintain market share by having consistently high-quality and consumer-relevant products.</p> <p>The Group strives to be at the forefront of changes in market trends at the consumer level and understanding the response from competitors to these changes. It uses consumer insights, research and data in its development of new products and improving the existing portfolio.</p> <p>A rigorous new product development process has been implemented.</p>

Risk Type	Description of the risks	How we manage the risks
Cultural	<p>Among other things, poor corporate culture can lead to unethical practices, lack of trust, poor decision-making, increased employee turnover and reduced motivation.</p>	<p>The Group's Board and management are laying the groundwork for a positive and inclusive culture.</p> <p>A refresh of key senior executive appointments and board renewal are being undertaken.</p> <p>A new remuneration structure has been established to align with business strategy and desired behaviours. The People and Culture Committee has refreshed its policy documentation, including a revised Committee Charter.</p>
Pandemic Risks	<p>The COVID-19 pandemic that emerged in March 2020 in Australia has impacted most businesses. The Group has been impacted by the COVID-19 pandemic including the loss of revenue, mainly in the sale of cream and out-of-home products.</p> <p>The length and duration of the current pandemic and the economic impact remain uncertain. The pandemic will continue to have an ongoing and unknown impact on the Group.</p> <p>Any further virus outbreaks in Australia or overseas may adversely affect the Group's business operations and financial performance.</p>	<p>The Group put in place measures in early 2020 to protect its key sites and employees. The Group has detailed protocols in place for any virus outbreaks in the states and regions in which it operates. As a result of the measures put in place, production at all the Group's manufacturing sites has not been impacted in any material way by COVID-19.</p> <p>The Group also closely monitors the markets and geographic regions in which it distributes its products to assess the impact of COVID-19.</p>
Doing Business in Export Markets	<p>The Group is exposed to a range of risks doing business in international markets, particularly in China and South East Asian markets. Business practices and local laws and regulations differ greatly from country to country.</p> <p>There are also personal risks to the Group's employees operating in or travelling to these countries that can include arbitrary detention, criminal or civil charges, or fines for alleged illegal business practices.</p>	<p>The Group seeks to manage these risks in a number of ways:</p> <ul style="list-style-type: none"> <li>- Employing experienced local personnel and working with long-established business partners and customers to assist, understand and navigate the local business environment in each market;</li> <li>- Ongoing monitoring for any adverse geopolitical, business and regulatory developments in each market; and</li> <li>- Ensuring business decisions, business partnerships and other contractual arrangements do not place employees or the Group at risk.</li> </ul>

Risk Type	Description of the risks	How we manage the risks
Quality and Food Safety	<p>The Group supplies a range of food products for human consumption. As a result, the Group is inherently exposed to risks in the entire production chain from receipt of ingredients through to dispatch to the end consumer. Risks can include food safety, product or packaging quality and/or food integrity issues (including interference by third parties) that may result in injury or harm to consumers.</p> <p>In addition, any food quality or safety incidents may cause disruption to business activities, result in increased costs, lead to potential litigation and damage the Group's reputation.</p>	<p>The Group has measures in place to manage and minimise food quality, packaging and safety risks using the latest technologies, including:</p> <ul style="list-style-type: none"> <li>- rigorous food safety and quality management systems, using the latest technologies, which are the subject of continuous review;</li> <li>- staff training and communication;</li> <li>- reputable third-party suppliers and partners;</li> <li>- compliance with food safety and standard laws and accreditation processes; and</li> <li>- established food safety incident and product recall policies and procedures (including trial runs).</li> </ul>
Legal action	<p>Legal action arises from time to time in the normal business activities of the Group. Litigation can arise from commercial disputes between the Group and its business partners, suppliers, employees and other third parties, and government bodies for alleged or actual failures to adhere to government regulations.</p> <p>Litigation is costly and time consuming and consumes board and management time and resources. It creates reputational risk, brand damage and potential liabilities for the Group, its Directors and Officers, and employees.</p>	<p>The Group is conscious of the reputational and financial impacts that can arise from litigation and takes all practical measures to manage potential or actual legal disputes. This includes endeavouring to prevent disputes from escalating, ensuring advice is taken on matters to address a dispute, seeking to avoid the use of court processes and, where appropriate, having insurance in place to limit the financial impact.</p>
Manufacturing disruption	<p>Production and sale of the Group's products relies on the continued operation of the Group's manufacturing facilities and consistent delivery of product volumes to meet the Group's contractual requirements and demand growth.</p> <p>Any material disruption to key parts of the manufacturing process may result in a failure to meet contractual sales volumes, loss of sales and revenue, termination of contracts and business partnership agreements, litigation and reputation damage.</p>	<p>The Group seeks to manage these risks in a number of ways:</p> <ul style="list-style-type: none"> <li>- Employing experienced personnel;</li> <li>- Well-designed manufacturing plant and equipment; and</li> <li>- Industry best practice in relation to maintenance and business continuity planning.</li> </ul> <p>Property and business interruption insurance is in place for our operations.</p>
Regulatory investigations and other action	<p>The Group may be the subject of regulatory investigations that may result in an adverse impact on the Company and stakeholders.</p> <p>The outcomes of any such investigations can be litigation, civil or criminal prosecution and/or lead to fines, compensation, remediation expense and/or restrictions on the Group's ability to operate its businesses.</p>	<p>The Group seeks to manage all its risks in order to avoid adverse events that may lead to regulatory investigations and other actions. The Group's organisation structure includes specific operational teams focused on financial, quality, workplace health and safety and people and culture matters. The overall management of risk is governed by the Group's Risk Management Framework. The Risk and Compliance Committee has oversight of operation of the Risk Management Framework and the management of risk across the Group.</p>

## 7. Information on Directors

Name:	Mr Perry R. Gunner
Title:	Chairman and Non-Executive Director (Non-independent)
Qualifications:	B.Ag.Sc, Grad Business Administration
Experience and expertise:	Perry is former Chairman and CEO of Orlando Wyndham Wine Group and was appointed Chairman in July 2006
Other current directorships:	None
Former directorships (last 3 years):	Non-Executive Director of Australian Vintage Ltd
Special responsibilities:	Member (and former Chair) of the Remuneration and Nomination Committee (now People and Culture Committee), Finance and Audit Committee and Risk and Compliance Committee
Interests in shares:	1,288,099
Name:	Mr Anthony M. Perich AM
Title:	Deputy Chairman and Non-Executive Director
Experience and expertise:	Anthony is a Member of the Order of Australia. He is joint Managing Director of Arrovest Pty Limited, Leppington Pastoral Co Pty Ltd, one of Australia's largest dairy producers, and various other entities associated with Perich Enterprises Pty Limited. He is also a property developer, farmer and business entrepreneur. Outside of the Perich Group, Anthony holds a number of other directorships which include Greenfields Narellan Holdings, Breeders Choice Woodshavings Pty Limited, and Ingham Institute for Applied Medical Research. Memberships include Narellan Chamber of Commerce, Narellan Rotary Club, Urban Development Institute of Australia, Urban Taskforce, Property Council of Australia, past President of Narellan Rotary Club and past President of Dairy Research at Sydney University. He was appointed as a Director in July 2006
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Deputy Chairman of the Board, Member of the Finance and Audit Committee and Member of the Risk and Compliance Committee
Interests in shares:	145,556,000
Name:	Mr Ronald Perich
Title:	Non-Executive Director
Experience and expertise:	Ronald is joint Managing Director of Arrovest Pty Limited, Leppington Pastoral Co Pty Ltd, one of Australia's largest dairy producers, and various other entities associated with Perich Enterprises Pty Limited. He is also a business entrepreneur and former Director of United Dairies Limited. He was appointed as a Director in April 2005
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Risk and Compliance Committee and former member of the Remuneration and Nomination Committee (now People and Culture Committee)
Interests in shares:	145,556,000

**Name:** Mr Trevor J. Allen  
**Title:** Non-Executive Director (Non-independent)  
**Qualifications:** B Comm (Hons), CA, FAICD  
**Experience and expertise:** Trevor has over 40 years' experience in the corporate and commercial sectors, primarily as a corporate and financial adviser to Australian and international public and privately owned companies. Trevor is an independent Non-Executive Director of Peet Limited and an independent Non-Executive Director of Eclipx Group Limited. Trevor is also a Non-Executive Director of the holding company of Real Pet Food Company. He has recently been appointed as the Freedom Foods Group Limited representative on the Board of Australian Fresh Milk Holdings (AFMH), in which Freedom has a 10% shareholding. Prior to Trevor's Non-Executive roles, he had senior executive positions in the investment banking and corporate advisory sector, at SBC Warburg (now UBS), Baring Brothers Australia and KPMG. He was appointed as a Director in July 2013

**Other current directorships:** Peet Limited and Eclipx Group Limited  
**Former directorships (last 3 years):** Yowie Group Limited  
**Special responsibilities:** Chairman of the Finance and Audit Committee and a member of the Risk and Compliance Committee and Remuneration and Nomination Committee (now People and Culture Committee).

**Interests in shares:** 139,925.

**Name:** Mr Michael R. Perich  
**Title:** Alternate Non-Executive Director, until 6 August 2020.  
**Qualifications:** B App Sci (Sys Ag), GAICD  
**Experience and expertise:** Michael has enjoyed a 25-year career in the agribusiness sector, most recently as director of dairy farm operations at Leppington Pastoral Company, one of Australia's largest dairy producers, and as a former joint managing director of AFMH. He is a Director of Arrovest Pty Ltd and a Director of AFMH and other entities associated with Perich Enterprises Pty Limited. He was appointed as an Alternate Director in March 2009 and resigned on 6 August 2020 when he was appointed Interim Chief Executive Officer.

**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** None  
**Interests in shares:** 145,556,000

**Name:** Mr Timothy Bryan  
**Title:** Alternate Non-Executive Director (Non-independent)  
**Qualifications:** BCom; CA, GAICD  
**Experience and expertise:** Tim is the Chief Executive Officer of the Perich Group. He was formerly managing partner of the chartered accounting firm Kelly & Partners South West Sydney. Outside of the Perich Group, Timothy holds a number of other directorships, which include Kids of Macarthur Health Foundation and Ingham Institute for Applied Medical Research, where he also chairs the finance and audit committee.

**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** None  
**Interests in shares:** 54,126

**Name:** Ms Genevieve Gregor (from 4 March 2020)  
**Title:** Non-Executive Director (Independent)  
**Qualifications:** B. Economics (UQ), Graduate Diploma Applied Finance & Investment (SIA), Honorary Doctorate of Letters (WSU), GAICD  
**Experience and expertise:** Genevieve is a Founding Partner of Colinton Capital Partners, a mid-market private equity firm investing in Australian growth companies. Prior to this, Genevieve was the co-head and Managing Director of the Asia Special Situations Group in Australia for Goldman Sachs for eight years. Genevieve has had over 25 years' experience working in banking and finance. She has completed numerous major financing transactions for the Australian corporate market over her career and been involved in a number of high-profile mergers and acquisitions. Prior to joining Goldman Sachs, Genevieve was head of the Australian loan capital markets business at Citigroup. Prior to Citigroup, she worked at MIM Holdings, now Xstrata Australia Limited. Genevieve was until recently the Deputy Chancellor of Western Sydney University, Chair of the Finance and Investment Committee and Trustee at WSU for over 10 years.  
**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Chair of the Risk and Compliance Committee and Member of the Finance and Audit Committee  
**Interests in shares:** 23,500

**Name:** Ms Jane McKellar (from 8 May 2020)  
**Title:** Non-Executive Director (Independent)  
**Qualifications:** MA (Hons) University of Aberdeen, GAICD  
**Experience and expertise:** Jane is an experienced non-executive director in both public and private companies in Australia and the US, bringing deep international consumer, digital, brand and marketing experiences to bear. Jane's executive experience as both a CEO and Chief Marketing Officer spans the consumer-focused FMCG, luxury and retail industries and she is one of the original 'digital natives' in Australia. She has held senior roles in Unilever, Microsoft, Elizabeth Arden and Stila Corporation. Jane has extensive global experience, particularly in Asia, Europe and North America and she has built a strong reputation over the years for leading teams and transforming businesses in difficulty back to profitability and growth. Her key contributions are in customer and consumer-focused business transformation, harnessing digital, technology, brand and marketing to enhance business performance.  
**Other current directorships:** GWA Group Limited and McPhersons Limited  
**Former directorships (last 3 years):** Automotive Holdings Group  
**Special responsibilities:** Chair of the People and Culture Committee (formerly Remuneration Committee).  
**Interests in shares:** 1,605

**Name:** Mr Rory J.F. Macleod  
**Title:** Former Managing Director and Chief Executive Officer (until 29 June 2020)  
**Qualifications:** B.Econ (Hons)  
**Experience and expertise:** Rory is no longer a Director or executive of the Company. Rory was with the group for 17 years. He was appointed as an Executive Director in 2008 and appointed Managing Director and CEO in August 2012. He is a former Senior Director, corporate finance for SBC Warburg (now UBS) in Australasia and Europe.  
**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** None  
**Interests in shares:** 1,699,681  
**Interests in options:** Nil

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last three years)' quoted above are directorships held in the last three years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

## 8. Company secretary

Mr Campbell Nicholas was Company Secretary and Chief Financial Officer from 12 September 2016 until 23 June 2020. Ms Amber Stanley was joint Company Secretary from 31 October 2019 to 9 March 2020. Mr Trevor Allen accepted the role of Company Secretary in an acting capacity from 23 June 2020 to 13 July 2020. Mr Scott Standen was appointed Interim Company Secretary from 13 July 2020. Mr Justin Coss was appointed Group General Counsel and Company Secretary on 23 November 2020. Mr Scott Standen will oversee an orderly transition.

## 9. Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	Full Board		Finance and Audit Committee		Risk and Compliance Committee (ii)	
	Attended	Held	Attended	Held	Attended	Held
Perry R. Gunner	15	15	5	5	3	3
Rory J.F. Macleod (i)	15	15	5	5	3	3
Anthony M. Perich	15	15	4	5	-	-
Ronald Perich	15	15	4	5	-	-
Trevor J. Allen	15	15	5	5	3	3
Genevieve Gregor	8	8	-	-	1	1
Jane McKellar	4	4	-	-	-	-
Michael R. Perich (Alternate)	14	15	4	5	3	3
Timothy Bryan (Alternate)	10	10	1	1	-	-

	Remuneration and Nomination Committee (iii)	
	Attended	Held
Perry R. Gunner	3	3
Rory J.F. Macleod	3	3
Ronald Perich	3	3
Trevor J. Allen	3	3
Michael R. Perich (Alternate)	2	3
Anthony M. Perich	2	3
Timothy Bryan (Alternate)	2	3

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

(i) Rory J.F. Macleod attended the Finance and Audit Committee meetings in his capacity as MD and CEO.

(ii) On 6 June 2019, the Risk and Compliance Committee was established (separating from the Audit, Risk and Compliance Committee) to monitor and review key risk areas within the Group.

(iii) Remuneration and Nomination Committee (formerly Remuneration Committee) was renamed the People and Culture Committee in July 2020.

In addition to the above-mentioned meetings, the Board met more frequently on an informal basis as required.

## Letter from People and Culture Committee Chair

Dear Shareholders and other Stakeholders,

On behalf of the Board and as the new Chair of the People & Culture Committee, I am pleased to introduce the Group FY20 Remuneration Report. The Group's Remuneration Report provides information about the remuneration of its most senior executives and explains how performance has been linked to reward outcomes at the Group for FY20.

### A strong future

We recognise that our success depends on the quality, commitment, and contribution of our people. As such, several decisions have been made since the last report with a clear objective to create an environment that fosters employee engagement by attracting, developing and retaining talented employees and executives, promoting an inclusive culture and linking rewards to the creation of sustainable value for shareholders. The team has pulled together strongly during these challenging times and has successfully navigated the impact on employees of COVID-19.

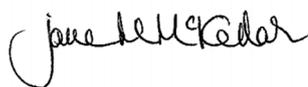
### People and culture initiatives

The Board has been focused on its people and the culture of the Group. Under the Board's stewardship, key initiatives include:

- Refreshing the executive leadership team;
- Appointment of two independent, female, non-executive directors to the Board;
- Appointment of an experienced Chief People and Culture Officer reporting directly to the CEO;
- Renaming and refocusing the Remuneration Committee, now the People and Culture Committee;
- Appointment of a new Chair of the People and Culture Committee;
- Appointment of a General Manager Internal Audit – a newly created role;
- The Directors voluntarily reduced their fees by 20% for FY21;
- Interim CEO electing to forgo participation in the Short-Term and Long-Term Incentives plans for FY21;
- Adopting a revised People and Culture Charter and a Statement of Values;
- Adopting a new Board, Executive and Employee Remuneration Framework to be effective in FY21; and
- Introducing malus forfeiture (claw back) guidelines to LTIP, addressing financial and non-financial matters.

As at 30 June 2020, women represent 27% of the Group's workforce (FY19: 30%). The Company continues to build initiatives that increase gender diversity and the representation of women across our workforce, resulting in an increase of 2 percentage points of women in senior management positions to 50% (FY19: 48%). The Company also appointed two female independent non-executive directors to the Board in FY20 and announced the appointment of a female CFO.

We will continue to work closely with the executive team and external advisors to ensure that the Group maintains a strong and effective talent pool. Our objectives will be to focus on and drive results and provide remuneration systems that fairly reward and motivate employees for their successful execution of our business strategies.



Jane McKellar  
People and Culture Committee Chair

### Remuneration Report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

- Key management personnel covered in this report
- Role of the Board and the People and Culture Committee
- Remuneration Governance
- People and Culture Committee Members
- Use of Remuneration Consultants
- Previous and New Executive Remuneration Strategy
- The link between performance and Executive KMP remuneration
- Executive KMP Remuneration and LTIP outcomes
- Non-executive Director Remuneration

### Key management personnel covered in this report

Key management personnel ("KMP") is defined by AASB 124 Related Party disclosures. Only Directors, the Chief Executive Officer and executives that have the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly and are responsible for the entity's governance are classified as KMP.

The following persons acted as Directors and KMP of the Group during or since the end of FY20:

Name	Position	Period as KMP
<b>Executive KMP</b>		
Rory J. F. Macleod	Managing Director and Chief Executive Officer	From 1 July 2019 to 29 June 2020
Amine Haddad	CEO – Commercial Operations Australasia	From 1 July 2019 to 9 June 2020
Campbell Nicholas	Chief Financial Officer and Company Secretary	From 1 July 2019 to 23 June 2020
Timothy Moses	Head of Operations	Full Year
Brendan Radford	Acting Chief Executive Officer	From 24 June 2020 to 5 August 2020
Michael Perich	Interim Chief Executive Officer	From 6 August 2020
Stephanie Graham	Acting Chief Financial Officer	From 24 June 2020
Trevor J. Allen	Company Secretary/Executive Director	From 23 June 2020 to 13 July 2020
<b>Non-executive Directors</b>		
Perry R. Gunner	Chair and Non-executive Director	Full Year
Anthony M. Perich	Deputy Chair and Non-executive Director	Full Year
Ronald Perich	Non-executive Director	Full Year
Trevor J. Allen	Non-executive Director	From 1 July 2019 to 23 June 2020/13 July 2020 to present
Genevieve Gregor	Non-executive Director	From 4 March 2020*
Jane McKellar	Non-executive Director	From 8 May 2020**
Michael Perich	Alternate Non-executive Director (R. Perich)	Full Year (resigned 6 August 2020)
Timothy Bryan	Alternate Non-executive Director (A. Perich)	From 4 December 2019

\*Genevieve Gregor's appointment was announced on 2 March 2020 and was ratified by the Board on 4 March 2020.

\*\*Jane McKellar appointment was announced on 12 May 2020 and was ratified by the Board on 2 April 2020.

In making an assessment of the KMP, a review of the roles performed by various senior management is undertaken. This review takes into consideration senior management members' ability to plan, direct and control the principal activities of the Group.

### Role of the Board and the People and Culture Committee

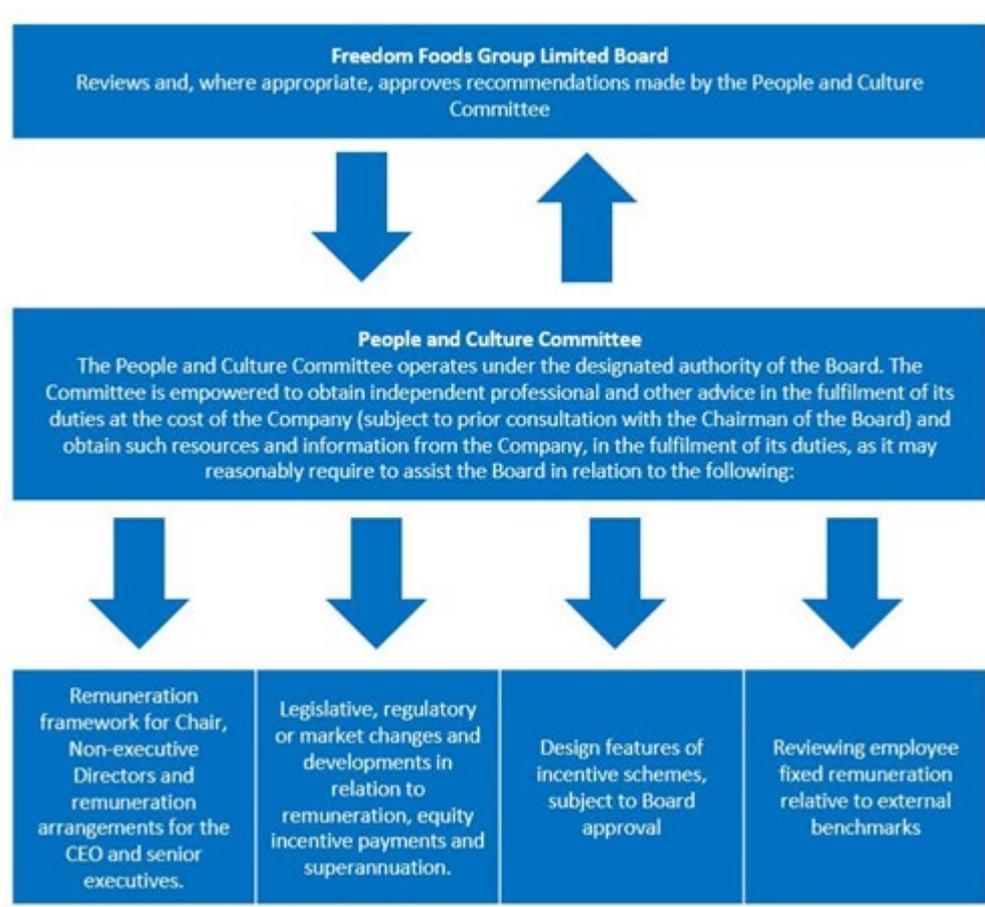
The Board is responsible for the Group's executive remuneration strategy and framework. Consistent with this responsibility, the Board delegates certain responsibilities to the People and Culture Committee (the "Committee") – formerly named the Remuneration and Nominations Committee – which in turn has developed a new People and Culture Committee Charter that has been adopted by the Board.

In summary, the role of the Committee includes:

- advising on the composition of the Board and its Committees;
- leading the Board review processes and associated functions for Board continuous improvement and effectiveness;
- recommending the appointment of Board members, Board Committee members, KMP and key senior leadership roles;
- sponsoring and making recommendations to the Board regarding the remuneration policies and practices for the Board, the Chief Executive Officer, the other Executive KMP, senior executives and other persons;
- advising the Board on remuneration practices, frameworks and policies by recognising the correlation between performance targets and reward;
- endorsing the Company values and sponsoring their adoption across the business via the leadership team;
- endorsing the people and culture strategy of the business; and
- sponsoring workplace practices and policies that foster a culture of fairness, equity, inclusion and diversity via such policies as the Equal Opportunity and Diversity Policy and the Code of Conduct.

### Remuneration Governance

The Committee's governance role can be illustrated as follows:



### People and Culture Committee Members

Further information on the Committee's role, responsibilities and membership is contained in the Group's Corporate Governance Statement and People and Culture Committee Charter, available on the Company's website.

The People and Culture Committee comprises the following Non-executive Directors:

- Jane McKellar (Chair) - appointed as a Director 8 May 2020, appointed to Committee 29 July 2020
- Perry Gunner - resigned from chair 29 July 2020
- Trevor Allen
- Ronald Perich - resigned 6 August 2020

The skills, experience and expertise of Committee members and the number of meetings held and attended is set out in the Directors' Report.

### Use of remuneration consultants

The Board directly engages external advisors to provide input to the process of reviewing Executive KMP and Non-executive Director remuneration.

During FY20, Crichton + Associates Pty Limited (Crichton + Associates) was engaged by the Board to provide recommendations in relation to selected remuneration consulting services. Crichton + Associates was paid \$21,766 for services specifically related to KMP remuneration and employee equity recommendations.

Crichton + Associates also provided services relating to other aspects of remuneration of the Group's employees, including the provision of valuation services, FFGL Equity Incentive Plan (EIP) award offer documentation and other advisory services related to the EIP. For these services Crichton + Associates was paid \$30,839 in FY20 and \$11,408 in FY21 until the date of this report.

The following arrangements were made with the objectives of ensuring that any advice or recommendations have been made free from undue influence:

- Crichton + Associates takes instructions from the Chair of the People and Culture Committee, who is an independent Non-executive Director, and is accountable to the Board for all work completed;
- During the course of any assignment, Crichton + Associates may seek input from management, however deliverables are provided directly to the Committee and considered by the Board; and
- Professional fee arrangements are agreed directly with the Chair of the Committee.

As a consequence, the Board is satisfied that the remuneration recommendations were made free from undue influence from any member of the KMP to whom the recommendations related. Separately, the Board is satisfied that Crichton + Associates' recommendations on the new remuneration framework as adopted by the People and Culture Committee and the Board (in November 2020) were made free from undue influence from any member of the KMP to whom the recommendations related.

### Previous Executive Remuneration Strategy

Until a detailed review undertaken in the fourth quarter of FY20, the Group's executives were remunerated via fixed salary, including remuneration and superannuation, plus long-term incentives delivered by way of market-priced options, subject to service and EBITDA performance. No short-term incentives were provided.

Approval was given at the Annual General Meeting in November 2016 for the adoption and establishment of the Freedom Foods' Equity Incentive Plan (EIP) to replace the Group's then existing Employee Share Option Plan (ESOP) for any new issue of securities under the LTIP. The ESOP will be terminated in the year ending 30 June 2021.

The current EIP allows the Company to grant a range of different share scheme interests to permanent full time or part time employees of a company in the Group, whom the Board determines to be eligible to participate. The Board believes that share scheme interest grants are appropriate to aligning key executive performance with long-term performance and growth of the Company. These share scheme interests include options, performance rights, service rights, deferred shares, exempt shares, cash rights and stock appreciation rights.

Historically, the Company's provided long-term incentives to senior employees for the year ended 30 June 2020 and prior years via the issuance of equity options and service rights. It did not provide a short-term incentive arrangement to executives and senior employees in FY20 or prior years.

Two executive KMP who resigned during FY20 forfeited equity entitlements available to them under the Group's option plan. Details of these forfeitures are as follows:

**Executive KMP who terminated employment during the year and forfeited equity benefits**

**Equity benefits forfeited on termination**

Rory J. F. Macleod	All
Campbell Nicholas	All

**Previous Remuneration Framework**

Position	Fixed Remuneration (FR)	Short Term Incentive Plan (STIP)	Long Term Incentive Plan (LTIP)	Total Targeted Remuneration (TTR)
Chief Executive Officer	Fixed Remuneration set at about the market median	No STIP was awarded	Ad hoc option grants based on service and EBITDA performance	Intended to provide TTR in the order of 75th percentile plus if LTIP targets were met
Other Executives	Fixed Remuneration set at about the market median	No STIP was awarded	Ad hoc option grants based on service and EBITDA performance	Intended to provide TTR in the order of 75th percentile plus if LTIP targets were met

**New Executive Remuneration Strategy**

For FY21, the Board is adopting a new Board, Executive and Employee Remuneration Framework that aims to set employee and executive remuneration that is competitive and appropriate for the markets in which it operates, mindful of external and internal relativities. This approach is in line with generally accepted market practice standards and consistent with ASX Corporate Governance Guidelines.

The principles of the Group's revised remuneration strategy include:

- Providing a market competitive fixed annual remuneration for all positions under a transparent framework and review procedures;
- Providing market competitive remuneration opportunities for intra-year performance if financial, customer and employee key performance indicators (KPI) are met;

- Linking executive rewards to shareholder value accretion by providing appropriate equity (or equivalent) incentives to selected senior executives and employees linked to long-term company performance and core values;
- Providing competitive total rewards to attract and retain appropriately skilled employees and executives;
- Having a meaningful portion of remuneration 'at risk', dependent upon meeting pre-determined benchmarks, both short (annual) and long term (3+ years);
- Establishing appropriate, demanding performance hurdles for any executive equity incentive remuneration;
- Driving the right senior leadership behaviours and outcomes to build a constructive culture through balanced scorecard measures; and
- Introducing malus forfeiture (claw back) guidelines to LTIP, addressing financial and non-financial matters.

The strategy has been drafted in such a way as to enable the Group to navigate the complexity of managing remuneration across varying job roles and geographies. Executive KMP remuneration strategy and objectives are summarised in the following table:

Freedom Food Group Limited's remuneration strategy and objectives for Executive Key Management Personnel (KMP) are summarised in the following table.

Executive KMP and Leadership Remuneration Objectives			
Attract, motivate and retain high-calibre executives across Freedom Foods Group	The creation of appropriate rewards to drive performance values and behaviours	A balance between fixed and at risk components	Shareholder value alignment through equity components
Total target remuneration is set by reference to the relevant geographic market			
Fixed		At Risk	
Total Fixed Remuneration (TFR)	Short-term incentives (STIP)	Long-term incentives (LTIP)	
TFR is set based on relevant market incentives, reflecting responsibilities, performance, qualifications, experience and geographic location	STIP performance criteria set by reference to relevant Group financial and non-financial targets via a balanced scorecard approach and with Group performance hurdles applied	LTIP targets are linked to Group earnings and share value growth or other selected performance measures	
Remuneration will be delivered as:			
Base salary plus any fixed elements related to local markets, including superannuation or equivalents	Equity based and awarded subject to service and performance. The equity is at risk until vesting. Deferral of a portion of the STIP	Equity in Performance Rights. All equity is held subject to service and performance for 3 years from grant date. The equity is at risk until vesting. Performance is tested once at the vesting date	
Strategic intent and market positioning			
TFR will generally be positioned at the median compared to relevant market-based data considering expertise and performance in the role	Fixed remuneration + STIP to be positioned at the 3 <sup>rd</sup> quartile of the relevant benchmark group	LTIP is intended to reward KMP and other senior executives for sustainable long-term growth aligned to shareholders' interests. LTIP allocation values are intended to be positioned in the 3 <sup>rd</sup> quartile of the relevant benchmark comparisons	

**Total Targeted Remuneration (TTR)**

TTR is intended to be positioned in the 3<sup>rd</sup> quartile compared to the relevant market benchmark comparisons. 4<sup>th</sup> quartile TTR may result if overperformance is achieved. The remuneration structure is designed to ensure top quartile executive KMP remuneration is only achieved if the Group outperforms.

Variable remuneration will only be available to individual employees if the Company performance gateways and individual KPIs are achieved, as follows:

- Company Performance Gateways: Target earnings per share (EPS) annual and compound annual growth rate (CAGR): as approved by the Board, or other alternatives at its discretion;
- Individual KPIs based on Balanced Scorecard will form the annual performance plan for each employee. The balanced scorecard approach will comprise appropriate KPIs covering: financial; customer and consumer; culture, learning and growth; and business processes; and
- The Equity Incentive Plan prohibits Hedging of unvested Awards issued under the Plan

Salary reviews for Board approval will be undertaken each year. Salary increases are at the discretion of the Board.

The following new remuneration mix is recommended by level:

Position	Fixed Remuneration (FR)	Short Term Incentive Plan (STIP)	Long Term Incentive Plan (LTIP)	Total Targeted Remuneration (TTR)
Chief Executive Officer	Up to 50%	Up to 25%	Up to 25%	100%
Other KMP / Company Executive Officers	Up to 60%	Up to 20%	Up to 20%	100%
Executive Leadership roles	Up to 70%	Up to 15%	Up to 15%	100%
All other salaried employees	100%	Discretionary bonuses may be considered for exceptional performance following Board approval	General employee equity awards may be provided	100%

The Board approved after the FY20 year end an executive remuneration malus and claw back provision in relation to performance-based remuneration. The Committee will review this framework and associated guiding principles once per annum, or more frequently if required for a specific purpose.

#### The link between performance and Executive KMP remuneration

For the period up to 30 June 2020, executives KMPs received fixed annual remuneration and performance-based remuneration in the form of options and service rights that were linked to EBITDA targets.

The earnings of the Group for the five years to 30 June 2020 are summarised below:

	2020 \$'000	2019 restated \$'000	2018** \$'000	2017** \$'000	2016** \$'000
Net sales revenue	580,191	461,768	Not restated	Not restated	Not restated
Operating EBITDA*	(86,535)	(88,482)	restated	restated	restated

\*Operating EBITDA (earnings before depreciation, interest, tax and amortisation) is a non-IFRS measure as contemplated in ASIC Regulatory Guide 230 Disclosing non-IFRS financial information (RG230). Operating EBITDA is a term defined in the offer letters to employees which is used by management and directors as the primary measure of assessing the financial performance of the Group and individual segments. The Operating EBITDA is equivalent to the Adjusted EBITDA as set out in the directors' report excluding AASB16 adjustments (i.e. Adjusted EBITDA (pre AASB16)).

\*\*Restatement of the FY19 revenue and operating EBITDA has consequently resulted in the prior year announced results being non-comparable. These amounts have therefore not been restated.

The reconciliation of EBITDA to statutory net profit is disclosed in the following table:

	Consolidated 2020 \$'000	Consolidated 2019 restated \$'000
EBITDA	(96,675)	(118,586)
Additional inventory provision	18,027	18,264
Restructuring expenses	1,443	194
Additional debtor provisioning	3,572	1,800
Acquisition costs	861	1,336
Discount charge - limited recourse facility	1,471	1,150
Unrealised foreign exchange loss	(8)	1,589
Share based payments	(417)	6,247
Other non-trading expenses	(35)	-
Adjusted EBITDA (post AASB 16)	(71,761)	
Adjusted EBITDA (pre AASB 16)	(86,537)	(88,006)

	2020	2019 restated	2018*	2017 *	2016 *
Share price at financial year end (\$)	3.01	5.08	6.73	4.80	4.06
Total dividends declared (cents per share)	0.00	5.50	5.00	4.25	3.25
Basic earnings per share (cents per share)	(63.59)	(59.07)			
Diluted earnings per share (cents per share)	(63.59)	(59.07)			

\*Not restated

### Details of remuneration

The key management personnel of the Group consisted of the following Directors and Executive Officers of Freedom Foods Group Limited:

#### Directors

- Perry R. Gunner - Chairman and Non-Executive Director
- Rory J.F. Macleod - Managing Director and Chief Executive Officer (until 29 June 2020)
- Anthony M. Perich - Deputy Chairman and Non-Executive Director
- Ronald Perich - Non-Executive Director
- Trevor J. Allen - Non-Executive Director (until 23 June 2020 and from 13 July 2020 to present)
- Genevieve Gregor - Non-Executive Director (from 4 March 2020)
- Jane McKellar - Non-Executive Director (from 8 May 2020)
- Michael Perich - Alternate Non-Executive Director for Ronald Perich (until 5 August 2020)
- Timothy Bryan - Alternate Non-Executive Director for Anthony M. Perich

Executive Officers

- Amine Haddad - CEO - Commercial Operations Australasia (until 9 June 2020)
- Campbell Nicholas - Chief Financial Officer and Company Secretary (until 23 June 2020)
- Timothy Moses - Head of Operations
- Brendan Radford - Acting Chief Executive Officer (from 24 June 2020 to 5 August 2020)
- Michael Perich - Interim Chief Executive Officer (from 6 August 2020)
- Stephanie Graham - Acting Chief Financial Officer (from 24 June 2020)

**Executive KMP Remuneration and LTIP outcomes**

In making an assessment of the KMP, a review of the roles performed by various senior management is undertaken each year. This review takes into consideration senior management members' ability to plan, direct and control the principle activities of the Group. Details of the statutory and non-statutory (cash value) remuneration of each member of the KMP of the Group are set out in the tables below.

The statutory disclosures required by the Corporations Act 2001 (Cth), as amended, and its regulations are set out below. The Company believes that the additional information provided in the cash value tables below are useful to investors. The tables below sets out the total cash value of remuneration realised for the KMP and provides shareholders with details of the "take-home" pay received/receivable during the year. These earnings include cash salary, and where applicable, other benefits, directors fees, bonus, superannuation and the value of shares issued to, or acquired on behalf of KMP following the vesting and exercise of options during the financial year. The tables do not include the accounting value of share-based payments consisting of options granted in the current and prior years required for statutory purposes. This is because those share-based payments are dependent on the achievement of performance hurdles and so may or may not be realised.

Non-statutory disclosures are as follows:

Executive KMP 2020	Salary (a) \$	Other benefits (b) \$	Bonus (c) \$	Superannuation \$	Value of exercised options (d) \$	Total \$
Executive Director:						
Rory J.F. Macleod	547,397	-	-	21,003	-	568,400
	-	-	-	-	-	-
Other Key Management Personnel:						
Amine Haddad	519,811	-	-	19,252	945,000	1,484,063
Campbell Nicholas	359,622	-	-	21,003	-	380,625
Timothy Moses	344,397	-	-	21,003	1,216,800	1,582,200
Brendan Radford*	8,057	-	-	404	-	8,461
Stephanie Graham*	4,990	-	-	404	-	5,394
Michael Perich**	-	-	-	-	-	-
Trevor Allen***	-	-	-	-	-	-
	<b>1,784,274</b>	<b>-</b>	<b>-</b>	<b>83,069</b>	<b>2,161,800</b>	<b>4,029,143</b>

\*Brendan Radford and Stephanie Graham were KMPs effective 23rd June 2020, therefore no prior year comparison is shown and amounts reflect time in KMP role.

\*\*Michael Perich was an executive KMP effective 6 August 2020, therefore no current year and prior year comparison are shown.

\*\*\*Trevor Allen was appointed as company secretary on 23 June 2020 and retired from that role on 13 July 2020. He remained a director of the company during this period, returning to non-executive duties from 13 July 2020. No additional remuneration was paid in respect of the services provided over the period.

(a) Cash salary.

(b) Other benefits include employment entitlements paid.

(c) There were no cash bonuses earned or paid.

(d) Value of exercised share options.

Executive KMP 2019	Salary (a) \$	Other benefits (b) \$	Bonus (c) \$	Superannuation \$	Value of exercised options (d) \$	Total \$
Executive Director:						
Rory J.F. Macleod	530,759	-	-	20,531	-	551,290
	-	-	-	-	-	-
Other Key Management Personnel:						
Amine Haddad	422,009	-	-	20,531	-	442,540
Campbell Nicholas	348,259	-	-	20,531	-	368,790
Timothy Moses	337,009	-	-	20,531	-	357,540
Brendan Radford	-	-	-	-	-	-
Stephanie Graham	-	-	-	-	-	-
	<u>1,638,036</u>	<u>-</u>	<u>-</u>	<u>82,124</u>	<u>-</u>	<u>1,720,160</u>

(a) Cash salary.

(b) Other benefits include employment entitlements paid.

(c) There were no cash bonuses earned or paid.

(d) There were no shares issued following the exercise of vested options.

The tables below are calculated in accordance with statutory obligations and Australian Accounting Standards. The amounts in the "Share-based payments" column relate to the component of the fair value of awards from the current year and prior year made under the various incentive plans attributable to the year measured in accordance with AASB 2 *Share-based payments*.

Statutory disclosures are as follows:

Executive KMP 2020	Short Term benefits			Post-employment benefits	Long Term Benefits	Share-based payments/ Service rights*	Total
	Salary	Other benefits	Short Term Incentives	Superannuation	Long Service Leave	Options	
	\$	\$	\$	\$	\$	\$	\$
Executive Director: Rory J. F. Macleod	547,397	-	-	21,003	64,193	(905,597)	(273,004)
Other Key Management Personnel:							
Amine Haddad	519,811	-	-	19,252	86,679	(543,358)	82,384
Campbell Nicholas	359,622	-	-	21,003	-	(4,762)	375,863
Timothy Moses	344,397	-	-	21,003	57,525	188,555	611,480
Brendan Radford	8,057	-	-	404	-	-	8,461
Stephanie Graham	4,990	-	-	404	-	-	5,394
Michael Perich	-	-	-	-	-	-	-
Trevor Allen	-	-	-	-	-	-	-
	<u>1,784,274</u>	<u>-</u>	<u>-</u>	<u>83,069</u>	<u>208,397</u>	<u>(1,265,162)</u>	<u>810,578</u>

Executive KMP 2019	Short Term Benefits			Post Employment Benefits	Long Term Benefits	Share-based payments*	Total
	Salary	Other Benefits	Short Term Incentives	Superannuation	Long Service Leave	Options	
	\$	\$	\$	\$	\$	\$	\$
Executive Director: Rory J. F. Macleod	530,759	-	-	20,531	58,439	1,860,445	2,470,174
Other Key Management Personnel:							
Amine Haddad	422,009	-	-	20,531	78,428	1,116,267	1,637,235
Campbell Nicholas	348,259	-	-	20,531	-	293,170	661,960
Timothy Moses	337,009	-	-	20,531	41,345	136,277	535,162
	<u>1,638,036</u>	<u>-</u>	<u>-</u>	<u>82,124</u>	<u>178,212</u>	<u>3,406,159</u>	<u>5,304,531</u>

### Executive KMP LTI outcomes

The number of options over ordinary shares in the Company held during the financial year by each Executive KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ lapsed	Balance at the end of the year
<b>Number of options over ordinary shares</b>					
Rory J.F. Macleod (resigned 29 June 2020)	2,500,000	-	-	(2,500,000)	-
Amine Haddad (resigned 9 June 2020)	1,500,000	-	(900,000)	(600,000)	-
Campbell Nicholas (resigned 23 June 2020)	800,000	-	-	(800,000)	-
Timothy Moses*	600,000	260,000	(260,000)	-	600,000
Brendan Radford (appointed 23 June 2020)	-	-	-	-	-
Stephanie Graham** (appointed 23 June 2020)	200,000	-	-	-	200,000
Michael Perich (appointed 6 August 2020)	-	-	-	-	-
	<u>5,600,000</u>	<u>260,000</u>	<u>(1,160,000)</u>	<u>(3,900,000)</u>	<u>800,000</u>

\*Service rights exercised during the year were exercised in full. Balance of options consists of 200,000 Series 8 (160,000 vested but not exercised) and 400,000 Series 9.

\*\*Balance of options consists of 200,000 Series 8 (160,000 vested but not exercised).

No KMP of the Group appointed during the year received a payment as part of his or her consideration for agreeing to hold the position.

### Executive KMP shareholdings

The number of shares in the Company held during the financial year by each Executive KMP of the Group, including their related parties, is set out below:

	Balance at the start of the year	Received on exercise of options	Dividend reinvestment plan	Other changes during the year	Balance at the end of the year
<b>Number of ordinary shares</b>					
Rory J.F. Macleod	1,686,669	-	10,550	2,462	1,699,681
Amine Haddad	1,239,913	900,000	-	-	2,139,913
Campbell Nicholas	-	-	-	-	-
Timothy Moses	174,320	260,000	62	(113,350)	321,032
Brendan Radford	-	-	-	-	-
Stephanie Graham	-	-	-	-	-
Michael Perich*	143,136,915	-	898,147	1,520,938	145,556,000
Trevor Allen	124,925	-	-	15,000	139,925
	<u>146,362,742</u>	<u>1,160,000</u>	<u>908,759</u>	<u>1,425,050</u>	<u>149,856,551</u>

\*Anthony M. Perich, Ronald Perich and Michael Perich (as Interim Chief Executive Officer from 6 August 2020) are Directors of Arrovest Pty Limited, an entity holding a direct interest in the Group.

### Non-executive Director Remuneration

The maximum aggregate amount of fees that can be paid to Non-executive Directors is subject to approval by shareholders at an Annual or Extraordinary General Meeting. Total fees for all Non-executive Directors, last voted upon by shareholders in November 2019, was not to exceed \$1,050,000 in total. Total fees paid to Non-executive Directors for FY20 was \$702,172 (2019: \$574,999). To align director interests with shareholder interests, the Directors are encouraged to hold shares in the Company. The EIP allows the Company to grant a range of different salary sacrifice share scheme interests to all directors (excluding Ronald Perich and Anthony M. Perich and their alternates), although no arrangements have been put in place to date.

Non-executive Directors do not receive performance-related remuneration. Directors' fees cover all main Board activities including Committee Fees. Other than contributions towards superannuation funds, there are no termination or retirement benefits for Non-executive Directors. From time to time, the Board may deem it appropriate for Non-executive Directors to receive Company securities as consideration for work performed over-and-above the typical duties of a Director. From time to time, the Board may deem it be acceptable for past Directors to be engaged and paid as consultants to assist the Company.

The Directors volunteered to reduce their fees by 20% for FY21.

Non-Executive Directors FY20	Short Term	Short Term	Short Term	Post	Long Term	Share-based	Total
	Benefits	Benefits	Benefits	Employment	Benefits	payments	
	Director's	Other	Short Term	Superannua	Long Service	Options	
	Fees	Benefits	Incentives	tion	Leave		
	\$	\$	\$	\$	\$	\$	\$
Perry R. Gunner	143,836	-	-	13,664	-	-	157,500
Anthony M. Perich	134,703	-	-	12,797	-	-	147,500
Ronald Perich	125,571	-	-	11,929	-	-	137,500
Trevor J. Allen	125,571	-	-	11,929	-	-	137,500
Genevieve Gregor*	41,798	-	-	3,971	-	-	45,769
Jane McKellar**	18,522	-	-	1,760	-	-	20,282
Michael Perich (alternate)***	32,443	-	-	3,082	-	-	35,525
Timothy Bryan (alternate)	18,809	-	-	1,787	-	-	20,596
	<u>641,253</u>	<u>-</u>	<u>-</u>	<u>60,919</u>	<u>-</u>	<u>-</u>	<u>702,172</u>

\*Genevieve Gregor was appointed as independent non-executive Director effective 4 March 2020 and her remuneration reflects time in the role.

\*\*Jane McKellar was appointed as independent non-executive Director effective 8 May 2020 and her remuneration reflects time in the role.

\*\*\*Michael Perich was appointed as Interim Chief Executive Officer from 6 August 2020 and is not an Alternate Director from that date.

Non-Executive Directors FY19	Short Term	Short Term	Short Term	Post	Long Term	Share-based	Total
	Benefits	Benefits	Benefits	Employment	Benefits	payments	
	Director's	Other	Short Term	Superannuat	Long Service	Options	
	Fees	Benefits	Incentives	ion	Leave		
	\$	\$	\$	\$	\$	\$	\$
Perry R. Gunner	134,703	-	-	12,797	-	-	147,500
Anthony M. Perich	125,571	-	-	11,929	-	-	137,500
Ronald Perich	116,438	-	-	11,062	-	-	127,500
Trevor J. Allen	116,438	-	-	11,062	-	-	127,500
Michael Perich (alternate)	31,963	-	-	3,036	-	-	34,999
	<u>525,113</u>	<u>-</u>	<u>-</u>	<u>49,886</u>	<u>-</u>	<u>-</u>	<u>574,999</u>

### Non-Executive Director shareholdings

The number of shares in the Company held during the financial year by each Non-executive Director of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received on exercise of options	Dividend reinvestment plan	Other changes during the year	Balance at the end of the year
<b>Number of ordinary shares</b>					
Perry R. Gunner	1,189,031	-	-	99,068	1,288,099
Anthony M. Perich*	143,139,193	-	898,164	1,523,438	145,560,795
Ronald Perich*	143,136,915	-	898,147	1,520,938	145,556,000
Trevor Allen	124,925	-	-	15,000	139,925
Genevieve Gregor	-	-	-	23,500	23,500
Jane McKellar	-	-	-	1,605	1,605
Timothy Bryan	-	-	-	54,126	54,126
	<u>287,590,064</u>	<u>-</u>	<u>1,796,311</u>	<u>3,237,675</u>	<u>292,624,050</u>

\*Anthony M. Perich, Ronald Perich and Michael Perich (as Interim Chief Executive Officer from 6 August 2020) are Directors of Arrovest Pty Limited, an entity holding a direct interest in the Group.

### Service agreements

Neither the CEO nor any other Executive has a fixed-term contract. All senior executive management are employed under contract. The agreements outline the components of the remuneration paid to executives, including annual review. The agreements do not obligate the business to increase fixed remuneration, pay a short-term incentive, make termination benefits or offer a long-term incentive in any given year. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

The agreements may be terminated by written notice from either party or by the employing entity within the Group making a payment in lieu of notice. The notice period is 3 months for the Interim CEO. Other notice periods for other executives are between 1 and 3 months.

### Share-based compensation

#### Employee Share Options

Grant date	Number of shares initially under option	Expiry date	Exercise price	Fair value per option at grant date
1 July 2013	561,666	1 September 2019	\$1.65	\$0.181
1 July 2015	4,000,000	30 June 2020	\$2.92	\$1.195
1 October 2017	675,000	1 October 2019	\$4.50	\$0.618
1 October 2017	1,575,000	1 October 2019	\$4.50	\$0.735
1 October 2017	675,000	1 October 2020	\$4.50	\$0.748
1 October 2017	1,575,000	1 October 2020	\$4.50	\$0.951
18 April 2019	2,850,000*	30 November 2020	\$5.75	\$0.729

\* The number of shares under option could increase by 570,000 options if certain targets are exceeded.

#### 1 July 2013 Options (Series 4)

There are no performance criteria that needed to be met in relation to 1 July 2013 series options. These options vested over a period of 3 years and relate to an employee's service period only. The terms of issue of the options provided for an expiry date of 30 June 2018 which was later extended without authorisation of the Board. The 2018 and 2019 remuneration report and consolidated financial statements of the Group indicated an expiry date for these options of 1 September 2019. 561,666 Shares were issued on 5 November 2019 on claimed exercise of these options based on an exercise price of \$1.65 per Share.

#### 1 July 2015 Options (Series 6)

These options had a 5 year exercise period, with vesting criteria as per the below:

1,200,000 of options on achievement of audited Group operating EBITDA of A\$44.5 million;  
1,200,000 of options on achievement of audited Group operating EBITDA of A\$51.5 million; and  
1,600,000 of options on achievement of audited Group operating EBITDA of A\$63.5 million.

These options were issued to the former Managing Director and the former CEO - Commercial Operations Australasia, both of whom resigned during the year ended 30 June 2020. 1.6 million options did not vest and the former Managing Director forfeited 1.5 million options which had vested. During the year, the former CEO - Commercial Operations Australasia exercised 900,000 options which had vested based on reported results. All options in this series have now either expired or been exercised during the year.

#### 1 October 2017 Options (Series 7 & 8)

On 1 October 2017, two series of options were awarded to senior managers under the EIP, with a key condition for issuance that senior managers serve a minimum employment threshold up to 30 June 2018. Based on the minimum employment threshold having been achieved, the option series for those senior managers employed by the Company as at 30 June 2018 were issued on 30 August 2018. The exercise price of the option series reflected the market price of the shares in the Company at the time of the award.

There were two sets of vesting criteria to be satisfied concurrently. The first test is that a minimum return on funds employed (ROFE) (defined as Group operating EBITDA to funds employed, excluding capital work in progress and net debt) of 12% must be achieved for the vesting to be approved. The second test involves the achievement of certain Group operating EBITDA targets, which vary between the series of options awarded.

Audited Group operating EBITDA has been adjusted for any impact as a result of the new AASB 16 Leases standard from 1 July 2019 in determining the achievement of performance targets.

The first series of 2,250,000 options (series 7 options), with an expiry date of 1 October 2019, were entitled to vest, assuming achievement of the ROFE test, based on the achievement of Group Company operating EBITDA performance within the exercise period as follows:

30% of the options on achievement of audited Group operating EBITDA of A\$34.5 million;  
30% of the options on achievement of audited Group operating EBITDA of A\$38.5 million;  
20% of the options on achievement of audited Group operating EBITDA of A\$47.5 million; and  
20% of the options on achievement of audited Group operating EBITDA of A\$52.5 million.

Of the series 7 options, 60% vested in FY 2018 and the balance vested in FY 2019 based on reported results. While the options had vested in part in FY 2018, they had been unable to be exercised due to trading blackout periods. The series expired on 1 October 2019 without any options being exercised.

To rectify the impact on employees of the restricted capacity to exercise their options, the Board decided that the Company issue 160,000 service rights in lieu of Series 7 options to those affected employees. All of the service rights were exercised and 160,000 shares were issued on 20 April 2020.

The second series of 2,250,000 options (series 8), with an expiry date of 1 October 2020, will be entitled to vest, assuming achievement of the ROFE test, based on the achievement of Group Company operating EBITDA performance within the exercise period as follows:

30% of the options on achievement of audited Group operating EBITDA of \$40.0 million;  
30% of the options on achievement of audited Group operating EBITDA of \$50.0 million;  
20% of the options on achievement of audited Group operating EBITDA of \$55.0 million; and  
20% of the options on achievement of audited Group operating EBITDA of \$60.0 million.

Based on reported results, 80% of the series 8 options vested in FY19. None of the vested options were exercised before the expiry date of 1 October 2020. The remaining 20% did not vest before the expiry date.

The vesting achievement is subject to annual approval by the People and Culture Committee.

#### **18 April 2019 options (series 9)**

On 18 April 2019, 2,850,000 options were awarded to senior managers under the EIP, with a key condition for issuance that senior managers serve a minimum employment threshold up to 30 November 2020. The exercise price of the option series reflected the market price of the shares in the Company at the time of the award. Up to 570,000 additional options will be awarded if targets are exceeded. This series, with an expiry date of 30 November 2020, will vest based on the achievement of a Group operating EBITDA target of an aggregate of \$160 million over the two performance periods of FY19 and FY20 as follows:

20% of the options on achievement of audited Group aggregate operating EBITDA of \$144 million i.e. 90% of the target;  
65% of the options on achievement of audited Group aggregate operating EBITDA of \$152 million i.e. 95% of the target;  
75% of the options on achievement of audited Group aggregate operating EBITDA of \$160 million i.e. 100% of the target;  
100% of the options on achievement of audited Group aggregate operating EBITDA of \$168 million i.e. 105% of the target;  
110% of the options on achievement of audited Group aggregate operating EBITDA of \$176 million i.e. 110% of the target; and  
120% of the options on achievement of audited Group aggregate operating EBITDA of \$192 million i.e. 120% of the target.

Additional vesting criteria applies to this series. Subject to the achievement of the Group aggregate operating EBITDA performance, the employee must also achieve 75% of their individual key performance indicators and the Company must also achieve 95% of its health, safety and environmental targets.

This series will not vest given the performance of the two relevant financial years FY19 (as restated) and FY20.

#### **Other issues of rights to acquire shares**

On 23 March 2020, the Group issued service rights to employees who had been issued letters of offer of options in 2014 by the former Managing Director. The 2014 offer of options by the then Managing Director were not authorised by the Board. Following the Board becoming aware of the 2014 offer of options, it decided to honour the commitment and offered 1,385,000 service rights to affected employees, the terms of which related only to continuing employment during the period of the service rights. The service rights were exercised in full prior to their expiry on 31 March 2020.

#### **End of audited remuneration report**

#### 10. Indemnity and insurance of officers

Under the Company's Constitution, to the maximum extent permitted by law, the Company indemnifies the officers and former officers of the Company against all losses, liabilities, costs, charges and expenses incurred by the officer in the execution of the officer's duties as an officer of the Company.

The Company has entered a Deed of Access and Indemnity with each of its Directors and officers (each an Officer). This Deed:

- indemnifies the Officer to the maximum extent permitted by law against liabilities incurred by the Officer arising from the person's position as an Officer of the Company;
- requires the Company to maintain, and pay the premium for, a D&O insurance policy in respect of the Officer; and
- provides the Officer access to books of the Company for a purpose permitted by the Deed.

During the financial year, the Group paid premiums to insure each of the Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of an Officer of the Group. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not, during the financial year, in respect of any person who is or has been an officer of the Company, indemnified or agreed to indemnify that person in respect of any liability described in section 199A(2) or (3) of the *Corporations Act 2001* (Cth).

#### 11. Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

#### 12. Proceedings on behalf of the Company

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

#### 13. Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 40 to the consolidated financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in Note 40 to the consolidated financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by The Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

#### 14. Rounding of amounts

The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) Corporations Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report are rounded off to the nearest thousand dollars, unless otherwise indicated.

**15. 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 immediately after this directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



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Perry R. Gunner  
Chairman

30 November 2020  
Sydney

The Board of Directors  
Freedom Foods Group Limited  
80 Box Road  
Taren Point NSW 2229

30 November 2020

Dear Board Members,

## Auditor's Independence Declaration to Freedom Foods Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Freedom Foods Group Limited.

As lead audit partner for the audit of the financial statements of Freedom Foods Group Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



David White  
Partner  
Chartered Accountants

**Freedom Foods Group Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2020**



	Note	Consolidated 2020 \$'000	2019 restated \$'000
<b>Revenue</b>			
Revenue from sale of goods	5	580,191	461,768
Cost of sales		<u>(577,961)</u>	<u>(491,029)</u>
Gross profit/(loss)		<u>2,230</u>	<u>(29,261)</u>
Other (expense)/income		(352)	3,364
Other gains/(losses)	6	161	(1,589)
<b>Expenses</b>			
Marketing expenses		(25,236)	(22,169)
Selling and distribution expenses		(68,555)	(55,698)
Expected credit losses	10	(3,639)	(1,800)
Administrative expenses		(31,909)	(29,552)
Impairment of right of use assets	15	(4,151)	-
Impairment of non-financial assets	7	(21,930)	-
Net finance costs	7	(21,814)	(9,719)
Share of profits/(losses) of associates accounted for using the equity method	13	<u>586</u>	<u>(254)</u>
<b>Loss before income tax benefit</b>		(174,609)	(146,678)
Income tax benefit	23	<u>101</u>	<u>851</u>
<b>Loss after income tax benefit for the year attributable to the owners of Freedom Foods Group Limited</b>		(174,508)	(145,827)
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on the revaluation of land and buildings, net of tax	29	411	522
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation	29	<u>137</u>	<u>(67)</u>
Other comprehensive income for the year, net of tax		<u>548</u>	<u>455</u>
<b>Total comprehensive loss for the year attributable to the owners of Freedom Foods Group Limited</b>		<u><u>(173,960)</u></u>	<u><u>(145,372)</u></u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	8	(63.59)	(59.07)
Diluted earnings per share	8	(63.59)	(59.07)

Refer to Note 3 for detailed information on restatement of comparatives.

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

	Note	2020 \$'000	Consolidated 2019 restated \$'000	2018 restated \$'000
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	9	17,167	55,385	98,106
Trade and other receivables	10	64,253	69,905	52,229
Inventories	11	59,808	79,472	66,725
Derivative financial instruments	12	2,504	287	293
Prepayments		2,804	3,178	2,825
<b>Total current assets</b>		<b>146,536</b>	<b>208,227</b>	<b>220,178</b>
<b>Non-current assets</b>				
Investments accounted for using the equity method	13	27,934	23,515	16,941
Property, plant and equipment	14	298,375	270,745	220,440
Right-of-use assets	15	172,304	-	-
Intangibles	16	36,753	53,020	47,164
Loans due from other parties		-	-	1,182
<b>Total non-current assets</b>		<b>535,366</b>	<b>347,280</b>	<b>285,727</b>
<b>Total assets</b>		<b>681,902</b>	<b>555,507</b>	<b>505,905</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	17	123,407	129,446	103,353
Payable to related parties	17	-	1,053	1,293
Borrowings	19	292,324	49,022	9,730
Lease liabilities	18	2,304	-	-
Derivative financial instruments	22	2,329	1,111	548
Income tax		-	-	4,893
Provisions	25	6,557	6,712	4,811
<b>Total current liabilities</b>		<b>426,921</b>	<b>187,344</b>	<b>124,628</b>
<b>Non-current liabilities</b>				
Borrowings	20	-	128,395	124,461
Lease liabilities	21	192,341	-	-
Provisions	26	1,641	5,111	6,547
<b>Total non-current liabilities</b>		<b>193,982</b>	<b>133,506</b>	<b>131,008</b>
<b>Total liabilities</b>		<b>620,903</b>	<b>320,850</b>	<b>255,636</b>
<b>Net assets</b>		<b>60,999</b>	<b>234,657</b>	<b>250,269</b>
<b>Equity</b>				
Issued Capital	27	598,712	589,123	453,388
Reserves	29	(55,851)	(44,750)	(51,453)
Accumulated losses		(481,862)	(309,716)	(151,666)
<b>Total equity</b>		<b>60,999</b>	<b>234,657</b>	<b>250,269</b>

Refer to Note 3 for detailed information on restatement of comparatives.

*The above statement of financial position should be read in conjunction with the accompanying notes*

	Note	Consolidated	
		2020 \$'000	2019 restated \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		574,782	455,815
Payments to suppliers and employees (inclusive of GST)		(644,795)	(573,299)
		<hr/>	<hr/>
Cash flows from operations		(70,013)	(117,484)
Interest received		672	236
Interest on lease liabilities paid	2	(11,932)	-
Other interest and finance costs paid		(12,629)	(10,566)
Income taxes paid		-	(4,850)
		<hr/>	<hr/>
Net cash used in operating activities	38	(93,902)	(132,664)
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired		-	(1,765)
Payments for property, plant and equipment	39	(22,809)	(66,899)
Payments for intangibles	16	(1,224)	(627)
Proceeds from disposal of assets		-	170
Investment in associates and joint ventures	13	(4,413)	(6,535)
		<hr/>	<hr/>
Net cash used in investing activities	39	(28,446)	(75,656)
<b>Cash flows from financing activities</b>			
Proceeds from issue of equity instruments of the company	27	3,555	130,532
Payment of share issue costs		(252)	(3,806)
Dividends paid	28	(2,659)	(4,353)
Proceeds from borrowings		86,330	43,226
Repayment of leases	2	(2,844)	-
		<hr/>	<hr/>
Net cash from financing activities	39	84,130	165,599
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(38,218)	(42,721)
Cash and cash equivalents at the beginning of the financial year		55,385	98,106
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year	9	17,167	55,385
		<hr/> <hr/>	<hr/> <hr/>

Refer to Note 39 for non-cash investing and financing activities.

**Freedom Foods Group Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2020**

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits/ (accumulated losses) \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2018	453,388	(55,019)	131,531	529,900
Prior year restatement (Note 3)	-	3,566	(283,198)	(279,632)
Balance at 1 July 2018 - restated	453,388	(51,453)	(151,667)	250,268
Loss after income tax benefit for the year	-	-	(145,827)	(145,827)
Other comprehensive income for the year, net of tax	-	455	-	455
Total comprehensive income for the year	-	455	(145,827)	(145,372)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of ordinary shares in accordance with the dividend reinvestment plan (Note 27)	7,869	-	-	7,869
Issue of ordinary shares from an entitlement offer (Note 27)	130,532	-	-	130,532
Share issue costs (Note 27)	(3,806)	-	-	(3,806)
Related income tax	1,140	-	-	1,140
Share based payments (Note 29)	-	6,248	-	6,248
Dividends paid (Note 28)	-	-	(12,222)	(12,222)
Balance at 30 June 2019 restated	<u>589,123</u>	<u>(44,750)</u>	<u>(309,716)</u>	<u>234,657</u>

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits/ (accumulated losses) \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2019 restated	589,123	(44,750)	(309,716)	234,657
Loss after income tax benefit for the year	-	-	(174,508)	(174,508)
Other comprehensive income for the year, net of tax	-	548	-	548
Total comprehensive income for the year	-	548	(174,508)	(173,960)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of ordinary shares under employee share option plan (Note 27)	3,555	-	-	3,555
Issue of ordinary shares in accordance with the dividend reinvestment plan (Note 27)	6,211	-	-	6,211
Share issue costs (Note 27)	(252)	-	-	(252)
Related income tax	75	-	-	75
Share based payments (Note 29)	-	(11,649)	11,232	(416)
Dividends paid (Note 28)	-	-	(8,870)	(8,870)
Balance at 30 June 2020	<u>598,712</u>	<u>(55,851)</u>	<u>(481,862)</u>	<u>60,999</u>

Refer to Note 3 for detailed information on restatement of comparatives.

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

## Note 1. General information

The financial statements of Freedom Foods Group Limited ("Group" or "Company") for the year ended 30 June 2020 were authorised for issue in accordance with resolution of Directors on 30 November 2020. The Directors have the power to amend, restate and reissue the financial statements.

Freedom Foods Group Limited is a Company incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The Company is trading under the symbol 'FNP'.

The nature of the operations and principal activities of the Group are described in Note 4.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented in the consolidated financial statements, unless otherwise stated.

The following accounting policies have been adopted in the preparation and presentation of the financial statements.

### (a) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

### (b) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The Company is of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that instrument to the nearest thousand dollars or in certain cases to the nearest dollar.

The financial statements are presented in Australian dollars.

## Note 2. Significant accounting policies (continued)

### Going concern

The Group has prepared the financial statements for the year ended 30 June 2020 on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group made a loss after tax for the 2020 financial year of \$174.5m (FY19- a restated loss of \$145.8m) and net cash outflows from operating activities of \$93.9m (FY19 \$132.7m). At 30 June 2020, the total borrowings of the Group were \$292.3m which have been classified within current liabilities. As a result, the Group had net current liabilities of \$280.4m at 30 June 2020 (FY19: net current assets of \$20.9m).

In response to the financial issues affecting the Group, the directors and management have taken a number of significant measures to stabilise the business and improve its future performance.

The Group obtained a waiver from its financiers in respect of non-compliance with lending covenants at 30 June 2020 and subsequently entered a standstill agreement in September 2020 which remains in effect to 29 January 2021. Subsequent to the balance date, a related party of the majority shareholder has guaranteed additional general-purpose funding in the form of a \$45m Subordinated Secured Facility, subject to various obligations including compliance with the terms of the standstill agreement. While Note 20 to the financial statements sets out the additional undrawn facilities that the Group had at its disposal at 30 June 2020, these undrawn amounts were cancelled as part of the standstill arrangements and replaced by the \$45m subordinated facility.

The standstill agreement has given the Group the opportunity to investigate and remedy a number of operating and financial matters. The Directors and management have identified opportunities to improve the operating and financial performance of the business. A critical element of this is the recapitalisation of the Group to provide the necessary funding for the business to meet its short and long-term financial requirements.

The Group needs to refinance its existing debt with more flexible capital that provides the Company the necessary runway to turn the business around and return to profitability and future growth. The Group explored a number of alternative recapitalisation options with a focus on seeking a solution that provides capital and operational expertise in implementing the turnaround. The Group is currently in exclusivity with a counterparty on a recapitalisation by way of a listed secured subordinated convertible note, noting the intent to allow for shareholder participation. The purpose of the fund raising is to allow the Group to reduce its existing senior finance facilities and to provide additional working capital. The Group is working with that counterparty to finalise its due diligence, the respective terms and offer document and is targeting to announce a fund raising by mid December 2020 with closing by 29 January 2021. The Group's major shareholder and lenders are supportive of the transaction. The Group is working with its existing lenders on negotiating revised terms for continuing facilities after the proposed secured subordinated convertible note is issued.

Whilst the proposed fund raising is at an advanced stage, there remains a risk that this will not complete. Key risks to the proposed fund raising include satisfactory completion of the counterparty's due diligence, regulatory approvals, and other conditions precedent typical for a transaction of this nature. The on-going support of the Group's major shareholders and lenders both in the period prior to, and subsequent to, the proposed fund raising is critical to the ability of the Group to continue as a going concern. The business requires improvement in its operating and financial performance, this is also critical to ensuring support for the transaction and continuing to operate subsequent to any fund raising.

In the absence of the fund raising being completed, the Directors in consultation with their advisers will reassess the options available at that point in time, including requesting a further extension of the standstill agreement, and/or commencing a process to sell non-core businesses and or assets.

In addition, the Group's current cashflow forecasts indicate that a further injection of short-term working capital is likely to be required in January 2021. The Directors are confident that should a temporary deficiency in working capital arise it can be bridged in a number of ways including improved working capital management, outperformance of forecasts, and/or additional support from the Group's lenders or its majority shareholder.

The Directors believe they will be successful in one or more of the above plans and accordingly, the financial report has been prepared on a going concern basis.

## Note 2. Significant accounting policies (continued)

Should any of the above matters not occur, a material uncertainty would exist which would cast significant doubt on the Group's ability to continue as a going concern and therefore whether it would be able to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

### New and amended standards adopted by the Group

During the year, the Group has applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) that are effective for an accounting period that begins on or after 1 July 2019, as follows:

- AASB 16 Leases
- AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty Over Income Tax Treatments
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
- AASB 2017-7 Amendments to Australian Accounting Standards – Long Term Interest in Associates and Joint Ventures
- AASB 2018-1 Annual Improvements 2015-2017 Cycle
- Interpretation 23 Uncertainty Over Income Tax Treatments

The impact of the adoption of AASB 16 Leases (AASB 16) is discussed in detail below. The other amendments listed above did not have an impact on the amounts recognised in the current or prior periods and are not expected to significantly impact future periods.

The Group has adopted AASB 16 using the “modified retrospective (simplified) approach” from 1 July 2019, and therefore the comparative information has not been restated as permitted under the specific transition provisions in the standard.

The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The Group accounting policies that apply to AASB 16 are set out in Note 15.

### Impact of the new definition of a lease

AASB 16 replaces previous lease accounting guidance and contains significant changes to the accounting treatment applied to leases. It requires a single accounting model to be applied to all types of leases, with the primary change being a requirement for lessees to recognise assets and liabilities for all leases, with the exception of short-term leases (with a duration of less than 12 months) and leases of low-value assets.

The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the lessee.

Control is considered to exist if the lessee has:

- a) the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- b) the right to direct the use of that asset.

The Group has elected to use the exemption not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The payments associated with these leases are recognised as administrative expenses on a straight-line basis over the lease term.

### Impact of the adoption of AASB 16 Leases

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under AASB 117, which were off-balance sheet. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The Group adopted the simplified transition approach at the date of initial application of AASB 16 and accordingly recognised a right of use asset equal to the amount of lease liabilities adjusted by accrued lease payments relating to the leases brought on balance sheet.

Note 2. Significant accounting policies (continued)

This resulted in the following:

- recognition of right-of-use assets of \$184.1m and lease liabilities of \$195.2m in the consolidated statement of financial position, as at 1 July 2019;
- recognition of depreciation on right-of-use assets and interest on lease liabilities of \$26.0m in the consolidated statement of profit or loss and comprehensive income for the year ended 30 June 2020; and
- separation of the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments of whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The reconciliation of non-cancellable operating lease commitments to the lease liability recognised on adoption is as follows:

	Consolidated 1 July 2019 \$'000
Operating lease commitments at 30 June 2019	206,223
Short-term leases and low-value assets	(1,006)
Adjustment as a result of different treatment of extension options*	226,432
Discounted using the incremental borrowing rate at 1 July 2019	<u>(236,415)</u>
Lease obligations recognised at 1 July 2019	<u><u>195,234</u></u>

\*The Group leases land and buildings for its offices, warehouses and manufacturing plant under agreements of between 2 to 20 years with, in some cases, options to extend to 30 years. The leases have various rental escalation clauses. On renewal or option extension, the rent can be renegotiated. The Group considers that it is reasonably certain to exercise the extension options related to certain land and building leases given the importance of the underlying assets to Group's operations.

The transition date value of right of use assets and lease liabilities is different from the preliminary impact assessment of \$130.5m. The difference mainly arose from a change in the incremental borrowing rate estimate and the adjustment of provisions under AASB 117 which were not part of the preliminary assessment.

A reconciliation of previously reported values and the final transition date numbers are presented below:

	1 July 2019	
	Right of use assets \$'000	Lease liabilities \$'000
Previously reported transition date impact	130,544	(130,544)
Discount rate revision	66,660	(66,661)
Provisions under AASB 117	(7,396)	-
Onerous lease provision under AASB 137	(3,759)	-
Change in treatment of extension option	<u>(1,971)</u>	<u>1,971</u>
	<u><u>184,078</u></u>	<u><u>(195,234)</u></u>

Note 2. Significant accounting policies (continued)

The Group has used a weighted average incremental borrowing rate of 6.2% with discount rates varying by reference to the nature of the asset and the period of the lease. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease terms vary between 2 and 30 years depending on the nature of the underlying asset. Most extension options in property leases have been considered in the determination of lease liability due to significant business disruption and costs associated with replacement.

The table below shows the movement for each financial statement line item affected by the application of AASB 16 during the year.

Impact on assets and liabilities

	Initial Application (1 July 2019) \$'000	Additions \$'000	Lease payments \$'000	Consolidated Depreciation and impairment* \$'000	Interest \$'000	30 June 2020 \$'000
Right-of-use assets	184,078	2,255	-	(14,029)	-	172,304
Lease liabilities	(195,234)	(2,255)	14,776	-	(11,932)	(194,645)

\*Depreciation and impairment includes an impairment of \$4.2m recorded on right of use assets arising from certain onerous lease arrangements, including head office and Cereal and Snacks manufacturing sites.

The table below shows the impact of adopting AASB 16 on the Group's consolidated statement of financial position as at 30 June 2020 and its consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 30 June 2020.

Impact on statement of financial position

	30 June 2019 restated Pre - AASB 16* \$'000	AASB 16 impact \$'000	1 July 2019 restated Post-AASB 16 \$'000
Current assets	208,227	-	208,227
Non-current assets	-	-	-
Right-of-use assets	-	184,078	184,078
Other non-current assets	347,280	-	347,280
	<u>347,280</u>	<u>184,078</u>	<u>531,358</u>
Total assets	<u>555,507</u>	<u>184,078</u>	<u>739,585</u>
Current liabilities	-	-	-
Lease liabilities - current	-	(2,730)	(2,730)
Other current liabilities	(187,344)	7,396	(179,948)
Total current liabilities	<u>(187,344)</u>	<u>4,666</u>	<u>(182,678)</u>
Non-current liabilities	-	-	-
Lease liabilities - non-current	-	(192,503)	(192,503)
Other non-current liabilities	(133,506)	3,759	(129,747)
Total non-current liabilities	<u>(133,506)</u>	<u>(188,744)</u>	<u>(322,250)</u>
Total liabilities	<u>(320,850)</u>	<u>(184,078)</u>	<u>(504,928)</u>
Net assets	<u>234,657</u>	-	<u>234,657</u>

\*This is pre - AASB 16 adjustment but after all restatements as detailed in Note 3.

Note 2. Significant accounting policies (continued)

Impact on profit/(loss)

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Increase in depreciation	(9,878)	-
Increase in net finance costs	(11,932)	-
Decrease in straight line expense	16,760	-
	<hr/>	<hr/>
Impact for the year	(5,050)	-
	<hr/> <hr/>	<hr/> <hr/>

Impact on statement of cash flows

	Consolidated 2020 \$000	Consolidated 2019 \$000
Increase in cash flows from operating activities	2,844	-
Decrease in cash flows from financing activities	(2,844)	-
	<hr/>	<hr/>
	-	-
	<hr/> <hr/>	<hr/> <hr/>

The following table presents the contractual undiscounted cash flows for lease obligations as at 30 June 2020:

	Consolidated 30 June 2020 \$'000	Consolidated 1 July 2019 \$'000
Within in one year*	14,186	14,790
One to five years*	53,467	54,516
More than five years **	124,997	139,135
More than five years - extension options assumed to be exercised***	226,432	226,432
	<hr/>	<hr/>
	419,082	434,873
	<hr/> <hr/>	<hr/> <hr/>

\* Non-cancellable lease payments.

\*\* Non-cancellable lease payments, subject to market review.

\*\*\* Cancellable lease but extension options are considered reasonably certain to be exercised, subject to market review.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Freedom Foods Group Limited and entities controlled by the Company and its subsidiaries ('the Group'). The Company controls an entity when:

- it has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of profit or loss and comprehensive income from the date on which the Company obtains control and until such time at the Company ceases to control such entity.

## Note 2. Significant accounting policies (continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The amounts attributable to the non-controlling interests are not separately disclosed as the financial statements are rounded to the nearest thousand dollars under Australian Securities and Investments Commission Corporations Instrument 2016/191.

Associates are all entities over which the Group has significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the Company and usually exists where the Group holds between 20% and 50% of the voting rights or representation on the Board of Directors. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

### (d) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

The excess of the:

- consideration transferred
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

## Note 2. Significant accounting policies (continued)

### (e) Foreign currency

Transactions, assets and liabilities denominated in foreign currencies are translated into Australian dollars at reporting date using the following applicable exchange rates:

#### Foreign currency amount

#### Applicable exchange rate

Transactions	Date of the transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities carried at fair value	Date fair value is determined

Foreign exchange gains and losses resulting from translation are recognised in profit or loss in the statement of profit or loss and other comprehensive income, except for qualifying cash flow hedges which are deferred to equity.

On consolidation the assets, liabilities, income and expenses of foreign operations are translated into Australian dollars using the following applicable exchange rates:

#### Foreign currency amount

#### Applicable exchange rate

Income and expenses	Average exchange rate
Assets and liabilities	Reporting date
Equity	Historical date

Foreign exchange differences resulting from translation are initially recognised in the foreign currency translation reserve and subsequently transferred to the profit or loss on disposal of the foreign operation.

### (f) Investments and other financial assets

#### Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through Other Comprehensive Income "OCI" or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### Recognition and derecognition

Purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

#### Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

## Note 2. Significant accounting policies (continued)

### Debt instruments

The measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

### Equity instruments

The Group measures all investments in equity instruments at fair value. Where the Group's management has elected to present fair value gains and losses on equity instruments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the instrument. Dividends from such instruments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity instruments measured at FVOCI are not reported separately from other changes in fair value.

### *Impairment of financial assets*

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 10 for further details.

### **(g) Impairment of non-financial assets including investments accounted for using the equity method**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets, including investments accounted for using the equity method, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units or CGU's). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## Note 2. Significant accounting policies (continued)

### (h) Critical accounting estimates and judgements

In applying the Group's accounting policies, the Directors are required to make estimates, judgements and assumptions that affect the amounts reported in the financial report.

The estimates, judgements and assumptions are based on historical experience, adjusted for current conditions and other factors that are believed to be reasonable under the circumstances and reviewed on a regular basis.

The actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The estimate and judgements which involve a higher degree of complexity or that have a higher likelihood of causing adjustment to the carrying amounts of assets and liabilities are included in the following notes:

- Note 10: Estimation of expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in Note 12, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

- Note 11: Estimation of net realisable value of inventories

The Group reviews net realisable value (NRV) of inventories regularly to determine that it is stated at the lower of cost and NRV. Factors that could affect NRV and hence future realisation of inventories include competitor actions and market trends. Changes in the NRV of inventory could affect profit in the future period.

- Note 13: Judgement in determining significant influence and whether to apply equity accounting to certain investments

The Group has a 10% ownership interest in Shenzhen Jialile Co. Limited (JLL) and Australian Fresh Milk Holdings Pty Limited (AFMH). During FY20, although the Group held less than 20% of the equity shares of JLL, the Group exercised significant influence by virtue of holding a Board seat where the Board member holds certain veto rights on Board voting.

Although the Group holds less than 20% of the equity shares of AFMH, the Group has joint control of AFMH (under accounting standards). It has a Board seat, as well as having a related party (LPI) holding a 37% shareholding in AFMH.

- Note 14: Estimates of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

- Note 14: Estimates of cost of assets included in capital work in progress and the timing of transfer of capital work in progress to property, plant and equipment

The Group applies AASB 116 in the determination of costs that may be capitalised as part of capital work in progress, as reflected in its fixed assets accounting policy. Judgement is required in determining the extent to which the costs are eligible for capitalisation including employee and borrowing costs, the period over which they should be capitalised and when those assets are ready for their intended use. Depreciation commences from the point when such assets are ready and available for their intended use.

## Note 2. Significant accounting policies (continued)

● Note 15: Judgement in assessing which arrangement contains a lease and estimating the useful lives of right-of-use assets  
The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

● Note 16: Determining the recoverable amounts of the cash generating units (CGUs)  
The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 1. The recoverable amounts of CGU's have been determined based on value-in-use and fair value less cost to dispose calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Property, plant and equipment is tested when there is an indicator of impairment.

● Note 24: Recognition of deferred tax asset  
The Group estimates future taxable profits based on approved budgets and forecasts. Future taxable profits are influenced by a variety of general economic and business conditions, which are outside the control of the Group. A change in any of these assumptions could have an impact on the future profitability of the Group and may affect the recognition and/or recovery of deferred tax assets. The potential business impacts of COVID-19 have been reflected in the Group's internal forecasts. The recognition of deferred tax assets including those arising from tax losses has been determined with reference to the Group's internal forecasts.

● Note 37: Share based payment transactions  
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

### Coronavirus (COVID-19) pandemic

The World Health Organization declared a global pandemic in March 2020 as a result of the novel coronavirus (COVID-19). The effects of this health crisis are continuing to unfold and the ultimate extent of the social, medical and economic impacts worldwide are unknown. The Group has considered the impact of COVID-19 in preparing its financial report for the year.

Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Key impacts are summarised below:

- The COVID-19 pandemic and associated lockdowns affected revenue, particularly in the 'out of home' (OOH) channel and sales of cream, through the period from March to May. While there was a shift to sales in the grocery channel, the profitability of these sales was materially lower than the expected sales via the OOH channel and sales of cream.
- Exports to China in H2 FY20 were impacted.
- Some of the Group's customers have experienced cash flow and financial difficulties due to mandatory closures, employment instability and the general economic downturn. As a result, the Expected Credit Loss (ECL), which recognises a provision of uncollectable debts, is also impacted as at 30 June 2020.
- The uncertainty surrounding the trading environment for the Group has impacted the approach to forecasting and modelling cash flows supporting the impairment assessment of non-financial assets. Uncertainty remains as to the timing and extent of the economic recovery generally and the impact of possible future outbreaks of COVID-19. Any adverse changes could lead to further impairments. The Group continues to closely monitor and respond to the situation.

## Note 2. Significant accounting policies (continued)

### New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this Financial Report.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Business (Amendments to AASB 3)
- Definition of Material (Amendments to AASB 101 and AASB 8)

## Note 3. Restatement of comparatives

### Prior period restatement

The Group has made the following adjustments which impact both the opening position in its financial statements as at 1 July 2018 and the performance and position reported at 30 June 2019:

1. a reduction in the value of property, plant and equipment in respect of costs previously capitalised during the commissioning phase of the Group's capital investment program which is now drawing to completion. The Group has determined that a proportion of these costs are more appropriately treated as expenses or have not been sufficiently able to be identified as directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Revenues generated from products produced during the commissioning phase have been deducted from the cost of property, plant and equipment. Changes have been made to the expected useful lives of property, plant and equipment at the time of their transfer from capitalised work in progress to depreciable plant and equipment. Previously unrecognised land and building revaluations have been recognised in the relevant periods. Associated adjustments to capitalised interest and depreciation have also been recognised;
2. impairment of intangible assets (goodwill) and property, plant and equipment in prior periods in the Dairy and Nutritionals CGU (\$31.6m goodwill) and the Cereal and Snacks CGU (\$23.0m goodwill, \$4.9m brands and \$42.5m property, plant and equipment) given the restated loss making performance of these businesses.
3. inventory write-downs and write-offs occurred, relating to out of date, obsolete, unsaleable, unable to be located and overvalued stock relative to net realisable value, much of which was produced during the commissioning phase of new equipment;
4. a reduction in the value of capitalised new product development costs as a result of a review of the nature of the costs capitalised and associated changes to amortisation;
5. a reduction in revenues and receivables for items which were not deemed to have met the revenue recognition criteria in prior periods, arising from a review of year end cut off deadlines;
6. writing off various aged receivable or other assets balances;
7. increase in prior period accruals for trade marketing and trade promotional expenditure not previously recognised;
8. restatement of the carrying value of equity accounted investments to reflect the proportion of earnings derived in each year;
9. an increase in prior periods' share based payments expense arising from written invitations made to employees in September 2014 accepted by those employees which were not authorised by the Board. AASB 2 requires the Group to account for the obligation and expectations created by the correspondence as if the issue had been authorised by the Board. This requires calculation of share based payments expense in respect of the September 2014 invitations for the period from September 2014 until the expiry of the invitation in September 2019;
10. recognition of lease payments under operating leases as expense on a straight-line basis over the lease term as required by AASB 117 (previous accounting standard on Leases);
11. recognition of a make good provision to meet the Group's obligations at the time of returning leased property;
12. recognition of onerous property contracts; and
13. derecognition of duplicate accruals;
14. reclassification of related party loans;
15. translation of foreign currency dominated loan;
16. restatement of the prior periods' tax balances to reflect the impact of the above.

Note 3. Restatement of comparatives (continued)

Nature of restatements	Ref	Financial impact 30 June 2019				Financial impact 30 June 2018			
		Asset (decrease) /increase	Liability (increase) /decrease	Other Equity (increase) /decrease	Profit decrease /(increase)	Asset (decrease) /increase	Liability (increase) /decrease	Other equity (increase) /decrease	Accumulated losses increase/ (decrease)
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Capitalisation of commissioning costs	1	(110,092)	-	-	110,092	(120,709)	-	-	120,709
Capitalised New Product Development	4	(19,286)	-	-	19,286	(19,570)	-	-	19,570
Impairment of intangibles	2	-	-	-	-	(59,481)	-	-	59,481
Impairment of Property Plant and Equipment	2	1,288	-	-	(1,288)	(42,145)	-	-	42,145
Inventory Provisions	3	(27,100)	-	-	27,100	(18,614)	-	-	18,614
Revenue Recognition	5	(565)	-	-	565	(1,429)	-	-	1,429
Receivables expected credit loss/write off	6	(6,699)	-	-	6,699	(4,953)	-	-	4,953
Increase in trade accruals	7	-	(2,874)	-	2,874	-	(9,026)	-	9,026
Equity accounted investments	8	(509)	-	(293)	802	(487)	-	-	487
Share-based payments	9	-	-	(469)	469	-	-	(3,367)	3,367
Lease accounting adjustment (pre AASB16)	10 11 12	-	(1,551)	-	1,551	-	(10,662)	-	10,662
Recognition of deferred tax on intangibles	15	(9,551)	9,551	-	-	9,551	(9,551)	-	-
Revaluation of land and buildings	2	966	(224)	(522)	(220)	(85)	(53)	(199)	337
Foreign translation reserve on loan	15	-	-	448	(448)	-	-	-	-
Derecognition of accruals	13	(725)	4,329	-	(3,604)	-	-	-	-
Reclassification of related party loans	14	778	(849)	-	71	-	-	-	-
Restatement of tax balances	16	2,054	4,493	-	(6,547)	(2,053)	9,636	-	(7,583)
		<b>(169,441)</b>	<b>12,873</b>	<b>(836)</b>	<b>157,404</b>	<b>(259,945)</b>	<b>(19,686)</b>	<b>(3,566)</b>	<b>283,197</b>

Note 3. Restatement of comparatives (continued)

These adjustments have been adopted by restating each of the affected financial statement line items for the prior periods as follows:

Statement of profit or loss and other comprehensive income

	2019 \$'000 Reported	Consolidated \$'000 Adjustment	2019 \$'000 Restated
<b>Revenue</b>			
Revenue from sale of goods	476,214	(14,446)	461,768
Cost of sales	(376,840)	(114,189)	(491,029)
Other (expense)/income	5,217	(1,853)	3,364
Other gains/(losses)	(2,037)	448	(1,589)
<b>Expenses</b>			
Marketing expenses	(10,396)	(11,773)	(22,169)
Selling and distribution expenses	(44,130)	(11,568)	(55,698)
Expected credit losses	-	(1,800)	(1,800)
Administrative expenses	(23,268)	(6,284)	(29,552)
Other expenses	(2,213)	2,213	-
Net finance costs	(3,986)	(5,733)	(9,719)
Share of profits/(losses) of associates accounted for using the equity method	480	(734)	(254)
<b>Profit/(loss) before income tax (expense)/benefit</b>	19,041	(165,719)	(146,678)
Income tax (expense)/benefit	(7,464)	8,315	851
<b>Profit/(loss) after income tax benefit for the year attributable to the owners of Freedom Foods Group Limited</b>	11,577	(157,404)	(145,827)
<b>Other comprehensive income</b>			
Gain on the revaluation of land and buildings, net of tax	-	522	522
Foreign currency translation	88	(155)	(67)
Other comprehensive income for the year, net of tax	88	367	455
<b>Total comprehensive income for the year attributable to the owners of Freedom Foods Group Limited</b>	11,665	(157,037)	(145,372)
	<b>Cents Reported</b>		<b>Cents Restated</b>
Basic earnings per share	4.69		(59.07)
Diluted earnings per share	6.90		(59.07)

Note 3. Restatement of comparatives (continued)

Statement of financial position at the beginning of the comparative period (30 June 2018).

	2018 \$'000 Reported	Consolidated \$'000 Adjustment	2018 \$'000 Restated
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	98,106	-	98,106
Trade and other receivables	62,849	(10,620)	52,229
Inventories	81,101	(14,376)	66,725
Derivative financial instruments	293	-	293
Prepayments	2,825	-	2,825
Total current assets	245,174	(24,996)	220,178
<b>Non-current assets</b>			
Investments accounted for using the equity method	17,428	(487)	16,941
Property, Plant and Equipment	388,883	(168,443)	220,440
Intangibles	111,130	(63,966)	47,164
Deferred tax	2,053	(2,053)	-
Loans due from other parties	1,182	-	1,182
Total non-current assets	520,676	(234,949)	285,727
<b>Total assets</b>	765,850	(259,945)	505,905
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	88,069	15,284	103,353
Payable to related parties	1,293	-	1,293
Borrowings	9,730	-	9,730
Derivative financial instruments	548	-	548
Income tax	4,893	-	4,893
Provisions	6,543	(1,732)	4,811
Total current liabilities	111,076	13,552	124,628
<b>Non-current liabilities</b>			
Borrowings	124,461	-	124,461
Provisions	413	6,134	6,547
Total non-current liabilities	124,874	6,134	131,008
<b>Total liabilities</b>	235,950	19,686	255,636
<b>Net assets</b>	529,900	(279,631)	250,269
<b>Equity</b>			
Issued Capital	453,388	-	453,388
Reserves	(55,019)	3,566	(51,453)
Retained profits/(accumulated losses)	131,531	(283,197)	(151,666)
<b>Total equity</b>	529,900	(279,631)	250,269

The restatement adjustment of \$279.6m in FY18 represents the cumulative impact of restatements relating to FY18 and prior years.

Note 3. Restatement of comparatives (continued)

Statement of financial position at the end of the comparative period (30 June 2019).

	2019 \$'000 Reported	Consolidated \$'000 Adjustment	2019 \$'000 Restated
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	55,385	-	55,385
Trade and other receivables	87,745	(17,840)	69,905
Inventories	120,211	(40,739)	79,472
Derivative financial instruments	287	-	287
Prepayments	3,179	(1)	3,178
<b>Total current assets</b>	<b>266,807</b>	<b>(58,580)</b>	<b>208,227</b>
<b>Non-current assets</b>			
Investments accounted for using the equity method	23,777	(262)	23,515
Property, plant and equipment	548,400	(277,655)	270,745
Intangibles	145,910	(92,890)	53,020
<b>Total non-current assets</b>	<b>718,087</b>	<b>(370,807)</b>	<b>347,280</b>
<b>Total assets</b>	<b>984,894</b>	<b>(429,387)</b>	<b>555,507</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	111,881	17,565	129,446
Payable to related parties	275	778	1,053
Borrowings	49,022	-	49,022
Derivative financial instruments	1,111	-	1,111
Provisions	9,248	(2,536)	6,712
<b>Total current liabilities</b>	<b>171,537</b>	<b>15,807</b>	<b>187,344</b>
<b>Non-current liabilities</b>			
Borrowings	128,395	-	128,395
Deferred tax	13,821	(13,821)	-
Provisions	284	4,827	5,111
<b>Total non-current liabilities</b>	<b>142,500</b>	<b>(8,994)</b>	<b>133,506</b>
<b>Total liabilities</b>	<b>314,037</b>	<b>6,813</b>	<b>320,850</b>
<b>Net assets</b>	<b>670,857</b>	<b>(436,200)</b>	<b>234,657</b>
<b>Equity</b>			
Issued Capital	589,123	-	589,123
Reserves	(49,152)	4,402	(44,750)
Retained profits/(accumulated losses)	130,886	(440,602)	(309,716)
<b>Total equity</b>	<b>670,857</b>	<b>(436,200)</b>	<b>234,657</b>

The restatement adjustment of \$436.2m in FY19 represents the cumulative impact of restatements relating to FY19 and prior years.

### Note 3. Restatement of comparatives (continued)

As a result of the adjustments referred to above, the interim financial report issued for the half year ended 31 December 2019 will also need to be restated and therefore should not be relied upon. The December 2019 interim financial report will be restated as part of the process of reporting the Group's results for the half year to 31 December 2020.

### Note 4. Operating segments

The Group is organised into four core business segments which is the basis on which the Group reports. During the period, Dairy and Nutritionals were combined as a single segment, whereas previously they were reported as individual segments. Similarly, the comparative amounts in the segments have been restated to reflect this change. The principal products and services of each of these operating segments are as follows:

Dairy and Nutritionals	A range of UHT (long life) dairy milk beverage, nutritional products and performance and adult nutritional powders. These products are manufactured in Australia and sold in Australia and overseas.
Plant Based Beverages	A range of UHT (long life) food and beverage products including liquid stocks, soy, rice and almond beverages. These products are manufactured in Australia and sold in Australia and overseas.
Cereal and Snacks	A range of products for consumers including allergen free, nutritional oat based, low sugar or salt, highly fortified or functional. The product range covers breakfast cereals, snack bars and other complementary products. These products are manufactured and sold in Australia and overseas.
Specialty Seafood	A range of canned seafood covering sardines, salmon and specialty seafood. These products are imported into Australia and sold in Australia and New Zealand.

The 'Unallocated Shared Services' group consists of the Group's shared service functions that are not separately reportable and provide support services to other reportable operating segments.

Operating segments are identified on the basis of internal reports that are regularly reviewed by the Board of Directors, CEO and senior leadership team in their capacity as the chief operating decision maker of the Group in order to allocate resources to the segments and assess their performance.

Note 4. Operating segments (continued)

Set out below is an analysis of the Group's revenue and results by reportable operating segment for the periods under review, together with prior year comparatives:

During the financial year, the Group changed the structure of its operating segments with Consumer Nutritionals now forming part of Dairy & Nutritionals. Accordingly, the comparative segment results, assets and liabilities set out below are restated to take into effect not only this change but also to incorporate the impact of restatement as detailed in Note 3.

Consolidated - 2020	Dairy & Nutritionals \$'000	Plant Based Beverages \$'000	Cereal & Snacks \$'000	Specialty Seafood \$'000	Unallocated Shared Services \$'000	Total \$'000
<b>Revenue</b>						
Sales to external customers	362,922	132,319	69,905	15,045	-	580,191
<b>Total revenue</b>	<u>362,922</u>	<u>132,319</u>	<u>69,905</u>	<u>15,045</u>	<u>-</u>	<u>580,191</u>
<b>EBITDA</b>	(52,446)	17,013	(34,270)	203	(27,175)	(96,675)
Share of associates profits	-	-	-	-	586	586
Depreciation	(14,500)	(11,000)	(1,947)	-	(2,083)	(29,530)
Amortisation	-	-	-	-	(1,096)	(1,096)
Impairment of right of use assets	-	-	(358)	-	(3,794)	(4,152)
Impairment of non-financial assets	(2,170)	(4,065)	-	(15,695)	-	(21,930)
Net finance costs	(2,122)	(8,701)	(219)	-	(10,770)	(21,812)
<b>Loss before income tax benefit</b>	<u>(71,238)</u>	<u>(6,753)</u>	<u>(36,794)</u>	<u>(15,492)</u>	<u>(44,332)</u>	<u>(174,609)</u>
Income tax benefit						101
<b>Loss after income tax benefit</b>						<u>(174,508)</u>
<b>Assets</b>						
Segment assets	311,450	253,631	41,389	5,678	41,820	653,968
Investment in associates						27,934
<b>Total assets</b>						<u>681,902</u>
<b>Liabilities</b>						
Segment liabilities	96,786	173,191	25,224	2,475	323,227	620,903
<b>Total liabilities</b>						<u>620,903</u>

Note 4. Operating segments (continued)

Consolidated - 2019 restated	Dairy & Nutritional \$'000	Plant Based Beverages \$'000	Cereal & Snacks \$'000	Specialty Seafood \$'000	Unallocated Shared Services \$'000	Total \$'000
<b>Revenue</b>						
Sales to external customers	264,780	101,523	80,938	14,527	-	461,768
<b>Total revenue</b>	<b>264,780</b>	<b>101,523</b>	<b>80,938</b>	<b>14,527</b>	<b>-</b>	<b>461,768</b>
<b>EBITDA</b>						
Share of associates losses	-	-	-	-	(253)	(253)
Depreciation	(6,263)	(5,189)	(7,252)	-	1,238	(17,466)
Amortisation	-	-	-	-	(654)	(654)
Net finance costs	-	-	-	-	(9,719)	(9,719)
<b>Loss before income tax benefit</b>	<b>(55,545)</b>	<b>(11,664)</b>	<b>(41,427)</b>	<b>(3,593)</b>	<b>(34,449)</b>	<b>(146,678)</b>
Income tax benefit						851
<b>Loss after income tax benefit</b>						<b>(145,827)</b>
<b>Assets</b>						
Segment assets	241,878	137,223	52,479	22,525	77,887	531,992
<i>Unallocated assets:</i>						
Investment in associates and joint venture						23,515
<b>Total assets</b>						<b>555,507</b>
<b>Liabilities</b>						
Segment liabilities	42,851	47,769	29,547	5,014	195,669	320,850
<b>Total liabilities</b>						<b>320,850</b>

\* The segment liabilities exclude equipment finance, debtor finance facilities and multi advance facilities relevant to the appropriate operating segment.

All operations are conducted in Australia, with the exception of Cereal and Snacks (Freedom Foods North America) and Dairy and Nutritionals (Freedom Foods Shanghai and Freedom Foods Singapore). Freedom Foods Shanghai was established in May 2019 and Freedom Foods Singapore was incorporated in November 2017. The operations of Freedom Foods North America commenced winding down in April 2020.

Revenue generated by equity accounted associates from external sales is not consolidated, instead under the equity method of accounting, the carrying amounts of interest in joint arrangement entities are increased or decreased to recognise the Group's share of post-acquisition profits or losses and other changes in net assets of the associates.

79% of total external sales of the Group are generated in Australia (FY19: 80%) with 11% generated from China (FY19: 14%) and 10% generated from other overseas countries (FY19: 6%).

**Information about major customers**

Included in revenues arising from external sales of \$580.2m (FY19: \$461.7m) (see segment revenue above) are revenues of approximately \$251.5m (FY19: \$205.6m), generated from the top three retail customers 43% (FY19: 45%) of total revenue.

Note 5. Revenue

	Consolidated	
	2020	2019 restated
	\$'000	\$'000
<b>Revenue</b>		
Revenue from sale of goods	580,191	461,768

**Significant accounting policies**

The Group applies AASB 15 Revenue from Contracts with Customers for revenue recognition. Revenue is recognised when control of the product has transferred and there is no unfulfilled obligation that could affect the customer's acceptance of the product. For domestic sales, the control is transferred when the product is delivered to the customer. Delivery occurs when the product has been shipped to the location specified by the customer and the customer accepts the product. For international sales, the transfer of control varies from order to order depending on the nature of the sales contract and the revenue is recognised when the goods are delivered and the customer takes ownership either when they are picked up from the Group's warehouse, delivered to the departure port or shipped to the destination port.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for trading terms, rebates and other similar allowances.

For segment information, refer to Note 4.

Note 6. Other gains/(losses)

	Consolidated	
	2020	2019 restated
	\$'000	\$'000
Net foreign exchange losses	(838)	(1,019)
Net gain/(losses) on financial assets held at fair value through profit or loss	999	(570)
Other gains/(losses)	161	(1,589)

Note 7. Expenses

	Consolidated	
	2020 \$'000	2019 restated \$'000
Loss before income tax includes the following specific expenses:		
<i>Other expenses</i>		
Depreciation	29,531	17,465
Amortisation	1,096	654
Restructuring expenses	1,443	194
Acquisition costs	861	1,336
<i>Employee benefits</i>		
Superannuation expenses	4,540	3,768
Share-based (benefit)/expense*	(417)	6,248
Employee benefits expense excluding superannuation and share-based payment expense	56,122	44,505
Total employee benefits	60,245	54,521
<i>Impairment</i>		
Goodwill (Note 16)	5,846	-
Brand names and trademarks (Note 16)	10,549	-
Property, plant and equipment (Note 14)	4,800	-
Investments accounted for using the equity method (Note 13)	735	-
Total impairment of non-financial assets	21,930	-
Total impairment of right of use assets (Note 15)	4,152	-
Total impairment	26,082	-
<i>Net finance costs</i>		
Interest (income)/expense	9,343	9,036
Interest on lease liabilities	11,932	-
Financing costs	539	683
Total net finance costs	21,814	9,719

\*The share based expense for FY20 is negative due to the inclusion of the reversal of previously recognised expense arising for forfeiture of share options granted to employees.

## Note 7. Expenses (continued)

Significant items affecting the result for the financial year ended 30 June 2020 include the following impacts:

	Ref.	Consolidated Year ended 30 June 2020 \$'000
Impairment of intangible assets	1.	16,395
Impairment of property, plant and equipment assets	2.	5,535
Impairment of right of use (ROU) assets	3.	4,196
Inventory provisions	4.	22,011
Receivable writeoffs	5.	9,809
Additional expected credit loss allowance from COVID-19 related impacts	6.	523
Share-based payment expenses	7.	1,100

### Ref.

1. Impairment of intangible assets (goodwill and brands) in the Dairy and Nutritionals CGU (\$0.7m goodwill) and the Specialty Seafood CGU (\$5.1m goodwill, \$10.5m brands, refer to Note 16 for further detail.
2. Impairment of unused property, plant and equipment.
3. A reduction in value of the ROU asset recognised on adoption of IFRS16, identified during the impairment testing of non-current assets.
4. Additional provisions and write offs for out-of-date, unsaleable, and obsolete inventory, much of which was produced during the commissioning phase of new equipment, and other inventory accounting matters.
5. Additional provisions and write offs for various aged receivable or other rebate accruals and adjustments for contractual costs incorrectly accounted for as receivables.
6. A reduction in value of the receivables balance arising from an increased likelihood of uncollectability due pressures from COVID-19.
7. An increase in share-based payment expenses arising from written offers made to employees in September 2014 accepted by those employees which were not authorized by the Board for the period from September 2014 until the expiry of the invitation in September 2019.

## Note 8. Earnings per share

	Consolidated 2020 \$'000	2019 restated \$'000
Loss after income tax attributable to the owners of Freedom Foods Group Limited	<u>(174,508)</u>	<u>(145,827)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>274,406,504</u>	<u>246,860,296</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>274,406,504</u>	<u>246,860,296</u>
	Cents	Cents
Basic earnings per share	(63.59)	(59.07)
Diluted earnings per share	(63.59)	(59.07)

At 30 June 2020, there were 277,109,319 ordinary shares (FY19: 272,903,282) on issue and 101,130 convertible redeemable preference shares (FY19: 101,627).

#### Note 8. Earnings per share (continued)

There were 5,100,000 employee share options outstanding (FY19: 11,911,666), 2,250,000 at \$4.50 per share (FY19: 2,250,000) and 2,850,000 at \$5.75 per share (FY19: 2,850,000). The employee share options have either expired since 30 June 2020 or are unlikely to vest because they have not met the vesting hurdles and have been excluded from diluted earnings per share calculation.

##### **Basic earnings per share**

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of Freedom Foods Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus issues.

##### **Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares.

#### Note 9. Current assets - Cash and cash equivalents

	Consolidated	
	2020 \$'000	2019 restated \$'000
Cash	17,167	55,385

#### Note 10. Current assets - Trade and other receivables

	Consolidated	
	2020 \$'000	2019 restated \$'000
Trade receivables	65,608	64,866
Less: expected credit loss allowance	(5,555)	(2,496)
	<u>60,053</u>	<u>62,370</u>
Other receivables	4,200	7,535
	<u>64,253</u>	<u>69,905</u>

The credit period on sales of goods ranges from 30 to 70 days for domestic sales and up to 120 days for international sales. No interest is charged on trade receivables. An allowance has been made for estimated irrecoverable trade receivable amounts arising from past sale of goods, determined by expected credit losses. The expected loss rates are based on the payment profiles of sales over a period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables as well as customers identified to have known issues which might affect recoverability. The Group does not hold any collateral over these balances. The loss allowance for trade receivables as at 30 June 2020 and 30 June 2019 was determined as follows:

Note 10. Current assets - Trade and other receivables (continued)

Consolidated	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2020 %	2019 restated %	2020 \$'000	2019 restated \$'000	2020 \$'000	2019 restated \$'000
Not overdue	2.8%	1.1%	50,649	49,281	1,403	530
0 to 3 months overdue	0.8%	1.1%	7,457	11,726	60	125
3 to 6 months overdue	0.8%	1.1%	1,128	725	9	8
Over 6 months overdue	64.1%	58.5%	6,374	3,134	4,083	1,833
			<u>65,608</u>	<u>64,866</u>	<u>5,555</u>	<u>2,496</u>

Some of the Group's customers have experienced cash flow and financial difficulties due to mandatory COVID-19 closures and the general economic downturn caused by the COVID-19 pandemic. As a result, the provision of uncollectable debts is also impacted as at 30 June 2020 and an additional credit loss allowance has been made for customers in areas where the economic downturn has been particularly severe.

49% of year end receivables are concentrated to the top five customers (FY19: 59%).

The Group holds letters of credit over export receivables of \$1.5m (FY19: \$0.9m). The letters of credit held equals the carrying amount of the relevant receivables. Refer to Note 30 for further details on the Group's exposure to, and management of, credit risk.

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	2020 \$'000	2019 restated \$'000
Opening balance	2,496	1,228
Additional provisions recognised	3,639	1,800
Receivables written off during the year as uncollectable	(580)	(532)
Closing balance	<u>5,555</u>	<u>2,496</u>

**Significant accounting policies**

Trade receivables are recognised initially at the amount of consideration that is unconditional.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This approach also considers the qualitative factors surrounding the debtors and the risks that they may have or will be facing as a result of the impact of unusual situations (such as COVID-19) on their business operations and financial position. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.

**Note 11. Current assets - Inventories**

	Consolidated	
	2020 \$'000	2019 restated \$'000
Raw materials - at cost	10,409	37,383
Finished goods - at net realisable value	49,399	42,089
	59,808	79,472

The cost of sales recognised as an expense during the year in respect of continuing operations was \$578.0m (FY19: \$491.0m).

During the year, write-downs of inventories amounting to \$18.5m (FY19: \$26.7m), were recognised as an expense and included in cost of sales in the statement of profit or loss. This write-down mainly arose as a result of out of date, obsolete, unsaleable, unable to be located and overvalued stock relative to net realisable value, much of which was produced during the commissioning phase of new equipment.

**Significant accounting policies**

Inventories are measured at the lower of cost and net realisable value ('NRV').

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a weighted average cost basis.
- Manufactured finished goods: cost of direct materials, direct labour and an appropriate proportion of manufacturing variable and fixed overheads based on normal operating capacity but excluding borrowing costs.
- Purchased finished goods: purchase cost on a weighted average cost basis.
- Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Note 12. Current assets - Derivative financial instruments**

	Consolidated	
	2020 \$'000	2019 restated \$'000
Foreign exchange option contracts	777	-
Forward foreign exchange contracts	1,727	287
	2,504	287

**Significant accounting policies**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period.

Refer to Note 30 for further information on financial instruments.

### Note 13. Investments accounted for using the equity method

Interests in joint arrangements are accounted for using the equity method of accounting. Information relating to the investments that are material to the Group are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Australian Fresh Milk Holdings Pty Limited (AFMH)	Australia	10.0%	10.0%
Shenzhen JiaLiLe Co. Limited (JLL)	China	10.0%	10.0%
Goulburn Valley Nutritionals Pty Limited (GVN)	Australia	49.0%	49.0%

	Consolidated	
	2020 \$'000	2019 restated \$'000
Investment- AFMH	22,077	17,741
Investment- JLL	5,857	5,039
Investment- GVN	735	735
	<u>28,669</u>	<u>23,515</u>
Less: accumulated impairment*	(735)	-
	<u>27,934</u>	<u>23,515</u>

\*GVN has been impaired in FY20.

The Group exercises significant influence over its investments which have been measured by applying the equity method of accounting. Under the equity method of accounting the carrying amounts of investments are increased or decreased to recognise the Group's share of the post-acquisition profits or losses and other changes in net assets.

#### Australian Fresh Milk Holdings Pty Limited (AFMH)

The shareholders of AFMH comprises Leppington Pastoral Investments Pty Limited (LPI), NewAustralia Holdings Pty Limited (NA), Paul Moxey Family Trust, Quentin Moxey Family Trust and Freedom Foods Group Operations Limited. The Group acquired its 10% interest in AFMH in 2015 for \$5.7 million. The Group has made additional investments over the last few years to maintain its 10% shareholding, including an investment of \$5.8 million during FY19 and \$4.0 million during FY20. The Group ownership remained at 10%.

Although the Group holds less than 20% of the equity shares of AFMH, the Group has joint control of AFMH (under accounting standards). It has a Board seat, as well as having a related party (LPI) holding a 37% shareholding in AFMH.

#### Shenzhen JiaLiLe Co. Limited (JLL)

In FY18, the Group entered into a Subscription and Shareholders Deed with JLL to subscribe for an initial investment of 10% of the Group for a cash consideration of RMB 22 million (AUD \$4.7 million), before associated costs. The Group also had an option to subscribe for up to 30% of JLL's registered capital within 3 years from the date of the initial subscription. This option period expired in October 2020 and the Group did not exercise its right to subscribe to the additional equity interest. The other shareholder in JLL is Guangzhou Langfeng Investment Co. Limited, a privately held Chinese enterprise. On 6 May 2019, the shareholders of JLL agreed to invest RMB 20 million as a shareholder loan to JLL. The Group's contribution was RMB 2 million.

Although the Group holds less than 20% of the equity shares of JLL, the Group exercises significant influence by virtue of having a Board seat. The Group ownership remains at 10%. On 4 July, the Group lost its capacity to exercise veto rights due to not exercising its option. This change in rights may impact the Group's capacity to exercise significant influence in JLL in FY21 and subsequent years.

Note 13. Investments accounted for using the equity method (continued)

**Goulburn Valley Nutritionals Pty Limited (GVN)**

The shareholders of GVN comprises NewAustralia Holdings Pty Limited (NA) and Freedom Foods Group Nutritionals Pty Limited. The Group acquired its 49% interest in GVN in 2019 for \$0.7 million.

Although the Group held 49% of the equity shares of GVN, the Group exercised joint control by virtue of a joint venture agreement that requires unanimous consent of both the venturers to all key decisions of GVN. The commercial operations of GVN did not commence and it remained dormant during FY19 and FY20. This investment is unlikely to have an ongoing business value and has been impaired.

*Summarised financial information*

	AFMH		JLL	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<i>Summarised statement of financial position</i>				
Current assets	50,693	45,672	12,209	12,901
Non-current assets	359,987	282,991	420	516
<b>Total assets</b>	<b>410,680</b>	<b>328,663</b>	<b>12,629</b>	<b>13,417</b>
Current liabilities	28,211	142,545	7,834	11,566
Non-current liabilities	169,999	16,974	-	-
<b>Total liabilities</b>	<b>198,210</b>	<b>159,519</b>	<b>7,834</b>	<b>11,566</b>
<b>Net assets</b>	<b>212,470</b>	<b>169,144</b>	<b>4,795</b>	<b>1,851</b>
<i>Summarised statement of profit or loss and other comprehensive income</i>				
Revenue	107,415	71,595	68,195	55,365
Expenses	(102,619)	(71,577)	(65,237)	(57,906)
Profit/(loss) before income tax	4,796	18	2,958	(2,541)
Income tax expense	(1,439)	(4)	-	-
Profit/(loss) after income tax	3,357	14	2,958	(2,541)
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>3,357</b>	<b>14</b>	<b>2,958</b>	<b>(2,541)</b>
	<b>2020 \$'000</b>	<b>2019 restated \$'000</b>	<b>2020 \$'000</b>	<b>2019 restated \$'000</b>
<i>Reconciliation of the Group's carrying amount</i>				
Opening carrying amount restated	17,741	11,940	5,039	5,001
Share of profit/(loss) after income tax	335	1	251	(255)
Equity investment	4,001	5,800	412	-
Exchange difference	-	-	155	293
<b>Closing carrying amount</b>	<b>22,077</b>	<b>17,741</b>	<b>5,857</b>	<b>5,039</b>

The Group has also conducted an impairment assessment of the investments accounted for using the equity method and determined that the recoverable amount is greater than the carrying amount and hence no impairment loss should be recognised.

Note 14. Non-current assets - Property, Plant and Equipment

	Consolidated	
	2020 \$'000	2019 restated \$'000
Freehold land - at independent valuation	4,871	4,722
Buildings - at independent valuation	14,020	13,471
Less: accumulated depreciation	(3,124)	(2,744)
	10,896	10,727
Make good asset - at cost	1,080	1,080
Less: accumulated depreciation	(772)	(772)
Less: accumulated impairment	(308)	(308)
	-	-
Plant and equipment - at cost	387,270	331,365
Less: accumulated depreciation	(87,803)	(68,532)
Less: accumulated impairment	(42,145)	(42,145)
	257,322	220,688
Capital work in progress	30,086	34,608
Less: accumulated impairment	(4,800)	-
	25,286	34,608
	<u>298,375</u>	<u>270,745</u>

Movements in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year:

Consolidated	Freehold Land \$'000	Buildings \$'000	Plant and equipment** \$'000	Capital work in progress \$'000	Total \$'000
Balance at 1 July 2018	5,296	9,856	130,457	243,274	388,883
Prior year restatement (Note 3)	(720)	661	25,956	(194,340)	(168,443)
Additions*	-	4	8,106	58,789	66,899
Transfers at completion of projects	-	-	73,115	(73,115)	-
Disposals	(74)	-	(20)	-	(94)
Revaluation	220	745	-	-	965
Depreciation expense	-	(539)	(16,926)	-	(17,465)
Balance at 30 June 2019 restated	4,722	10,727	220,688	34,608	270,745
Additions*	-	3	1,998	49,385	51,386
Transfers at completion of projects	-	-	53,907	(53,907)	-
Impairment of assets	-	-	-	(4,800)	(4,800)
Revaluation	149	546	-	-	695
Depreciation expense	-	(380)	(19,271)	-	(19,651)
Balance at 30 June 2020	<u>4,871</u>	<u>10,896</u>	<u>257,322</u>	<u>25,286</u>	<u>298,375</u>

\* Included in additions is \$0.5m (FY19: \$1.7m) of capitalised interest from borrowings related to AASB 123.

\*\* Included in plant and equipment is an amount of \$96.9m (FY19: \$67.4m) related to equipment obtained under equipment finance facilities as disclosed in Note 20.

#### Note 14. Non-current assets - Property, Plant and Equipment (continued)

##### Revaluation of land and building

The Group obtains independent valuations for its freehold land and buildings related to certain manufacturing sites at least annually. At the end of each reporting period, the Group updates its assessment of the fair value of such property, taking into account the most recent independent valuations.

As at 30 June 2020, the fair values of the land and building have been determined by Herron Todd White (MIA) Pty Ltd. and Opteon (Goulburn North East Vic) Pty Ltd. All resulting fair value estimates for properties are treated as level 2 fair values. Level 2 fair value is estimated using inputs other than quoted prices that are observable for the asset, either directly (as prices) or indirectly (derived from prices). As at 30 June 2020, the level 2 fair value for the Group has been derived using the sales comparison and capitalisation of market income approach. The key inputs under this approach are the rental per square metre and capitalisation rate. The current year rentals of comparable properties in the area (location and size) form the basis for rental per square metre and the associated market yields of such properties are used to determine the capitalisation rate. Refer to Note 3 which includes the detail of land and buildings revaluations recognised at 1 July 2018 and 1 July 2019 as a prior period restatement.

##### Impairment of plant and equipment

The Group carried out a review of the plant and equipment assets within the CGUs as detailed in Note 16. The review led to the recognition of impairment of plant and equipment which is not currently in operation amounting to \$4.8m based on the fair value of the relevant assets, as determined by management's estimate.

As at 30 June 2020, the fair values of the plant and equipment of the Cereal and Snacks CGU have been determined by Slattery Asset Advisory. The resulting fair value estimates for plant and equipment are treated as level 3 fair values and estimated using depreciable replacement cost (DRC) method. No impairment was recognised during the year. Refer to Note 3 which includes the detail of plant and equipment impairment recognised at 1 July 2018 as a prior period restatement. Key assumptions used by Slattery Asset Advisory include a residual value of 10% per asset applied against normal useful lives ranging from 5-25 years to estimate current DRC and DRC was then depreciated by 60% to allow for economic obsolescence of the lines to arrive at a fair value.

##### Significant accounting policies

Land and buildings are recognised at fair value, less any subsequent accumulated depreciation and impairment. A revaluation surplus is credited to reserves in shareholders' equity.

Plant and equipment including CWIP, motor vehicles and equipment obtained under equipment finance facilities are stated at cost less accumulated depreciation and impairment.

CWIP includes all expenditure directly attributable to bringing the asset to its working condition for its intended use which are incremental and unavoidable as a result of the construction of the asset.

Costs include installation costs, delivery costs, consultancy costs incurred to install the asset, fit out costs, interest on associated borrowings, project labour costs and commissioning costs. Start-up costs and similar pre-production costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance must be recognised as an expense. Included in this expenditure are the estimate cost of dismantling and removing the asset and restoring the site (where applicable).

The costs will be initially recognised as CWIP from the time that it satisfies the general recognition criteria for assets under the accounting standards.

The Group formally assesses whether project costs are to be reclassified from CWIP to Plant and Equipment. An asset is considered to be capable of operating in the manner intended by management when it is consistently capable of producing saleable product. This assessment is done periodically taking into consideration when the commissioning phase of each asset has been completed i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. At this point, it is classified as property, plant and equipment, to be depreciated from the date of reclassification over the useful life of the asset.

**Note 14. Non-current assets - Property, Plant and Equipment (continued)**

Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. Assets held under financing facilities are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Accounting estimates**

The following depreciation rates are used in the calculation of depreciation:

Buildings	2.5-5.0%
Plant and equipment	5.0-20.0%
Leased plant and equipment	5.0-20.0%

Freehold land is not depreciated.

**Note 15. Non-current assets - Right-of-use assets**

	Consolidated	
	2020 \$'000	2019 restated \$'000
Right-of-use asset - land and buildings	184,172	-
Less: accumulated depreciation ROU	(9,096)	-
Less: accumulated impairment	(3,793)	-
	<u>171,283</u>	<u>-</u>
Right-of-use asset - other	2,161	-
Less: accumulated depreciation ROU	(782)	-
Less: accumulated impairment	(358)	-
	<u>1,021</u>	<u>-</u>
	<u><u>172,304</u></u>	<u><u>-</u></u>

The Group leases land and buildings for its offices, warehouses and manufacturing plant under agreements of between 2 to 20 years with, in some cases, options to extend to 30 years. The leases have various rental escalation clauses. On renewal or option extension, the rent can be renegotiated. The Group also leases plant and equipment, motor vehicles and office equipment under other right of use agreements (previously described as operating leases) of between 2 to 5 years.

**Significant accounting policies**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is initially measured at cost, which comprises:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives and any initial direct costs incurred by the lessee; and
- An estimate of the costs to dismantle and remove underlying asset or to restore the underlying asset.

**Note 15. Non-current assets - Right-of-use assets (continued)**

Subsequently the right-of-use asset is measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The right-of-use asset is depreciated over the shorter period of the lease term and the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the costs of the right-of-use asset reflects that the Group will exercise a purchase option, the asset will be depreciated from the commencement date to the end of the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

If the recoverable amount of a right-of-use asset is less than its carrying value, an impairment charge is recognised in the profit or loss account, and the carry value of asset written-down to its recoverable amount. Should the recoverable amount increase in future periods the carrying value may be adjusted to the lower of the recoverable value or the amortised cost of the asset had it not been impaired.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

**Note 16. Non-current assets - Intangibles**

	Consolidated	
	2020 \$'000	2019 restated \$'000
Goodwill	68,755	68,755
Less: accumulated impairment	(60,436)	(54,590)
	8,319	14,165
Brand names and trademarks	37,720	37,720
Less: accumulated impairment	(15,440)	(4,891)
	22,280	32,829
Software acquisition and development	8,378	7,154
Less: accumulated amortisation	(2,224)	(1,128)
	6,154	6,026
	36,753	53,020

Consolidated	Goodwill \$'000	Capitalised development \$'000	Brand names and trademarks \$'000	Software \$'000	Total \$'000
Balance at 1 July 2018	59,204	19,570	31,837	519	111,130
Prior year restatement (Note 3)	(45,039)	(19,570)	(4,891)	5,534	(63,966)
Additions through business combinations	-	-	5,883	-	5,883
Additions	-	-	-	627	627
Amortisation expense	-	-	-	(654)	(654)
	14,165	-	32,829	6,026	53,020
Additions	-	-	-	1,224	1,224
Impairment of assets	(5,846)	-	(10,549)	-	(16,395)
Amortisation expense	-	-	-	(1,096)	(1,096)
	8,319	-	22,280	6,154	36,753
Balance at 30 June 2020	8,319	-	22,280	6,154	36,753

Note 16. Non-current assets - Intangibles (continued)

The carrying amount of goodwill, brand names and trademark is allocated to cash generating units as follows:

Consolidated	Goodwill 2020 \$'000	Brand names and trademarks 2020 \$'000	Goodwill 2019 restated \$'000	Brand names and trademarks 2019 restated \$'000
Cereal and Snacks	-	6,717	-	6,717
Consumer Nutritionals	8,319	15,563	9,019	15,563
Specialty Seafood	-	-	5,146	10,549
	<u>8,319</u>	<u>22,280</u>	<u>14,165</u>	<u>32,829</u>

**Capitalised new product development**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from new product development is recognised only if certain criteria are met. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Refer to Note 3 Restatement of comparatives for recognition of prior years capitalised new product development expenditure in the profit and loss account.

**Brand names and trademarks**

The Group carries \$22.3m (FY19 restated: \$32.8m) of brand names with indefinite useful lives allocated between the Cereal and Snacks and Consumer Nutritionals cash generating units. The brand names relate to established major brands purchased as part of business combinations. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

**Impairment of goodwill and other intangible assets**

Determining whether goodwill or other intangible assets are impaired requires an estimation of the recoverable amount of the cash generating units (CGU) to which the goodwill or other intangible assets have been allocated. The recoverable amount is determined using a value in use or fair value less cost to sell method. The cash generating units are subject to annual impairment testing as they hold indefinite life intangible assets amongst their assets.

Impairment testing requires a high degree of judgement in assessing whether the carrying value of assets is supported by their recoverable amount. The Group uses the relief from royalty method to determine the fair value of the brand names and trademarks and considers this to be a Level 3 treatment of the fair value hierarchy.

## Note 16. Non-current assets - Intangibles (continued)

### Assessment of the carrying value of each cash generating unit

#### *Dairy and Nutritionals*

The Dairy and Nutritionals CGU produces branded dairy UHT products under Group owned and third party owned brands. It also produces nutritional products such as lactoferrin for sale to domestic and international customers. The Dairy and Nutritionals CGU forms part of the Dairy and Nutritionals segment.

The recoverable amount of the Dairy and Nutritionals CGU has been determined using the following methodology:

- Discounted cash flow forecast to determine the value-in-use of the CGU as a whole utilising forecast cash flows for the period July 2020 to June 2025 and a terminal cashflow.

As part of the restatement of the financial statements the Group determined that it was appropriate to recognise an impairment of the goodwill of the Dairy and Nutritionals CGU, based on the revised assessment of expected future cashflows which indicated future losses. Refer to Note 3 for further details.

#### *Sensitivities*

If the long term growth rate used in the value-in-use calculation for the Dairy and Nutritionals CGU had been 0.25% lower than management's estimates at 30 June 2020 (2.25% instead of 2.50%), the Group would have had to recognise an impairment of \$8.7m against property, plant and equipment.

If the post tax discount rate applied to the cash flow projections of this CGU had been 0.25% higher than management's estimates (8.5% instead of 8.25%), the Group would have had to recognise an impairment of \$10.6m against property, plant and equipment.

If the 3 year forecast CAGR of revenue from FY20-23 was 10% lower than managements estimates the Group would have had to recognise an impairment of \$5.5m against property, plant and equipment.

The recoverable amount of these assets as at 30 June 2020 exceed the carrying amount by \$3.0m.

#### *Consumer Nutritionals*

The Consumer Nutritionals CGU produces branded protein powders for sale mainly to domestic customers, predominantly through the pharmacy and grocery channels and includes Vital Strength brands. This CGU forms part of the Dairy & Nutritionals operating segment.

The recoverable amount of the Consumer Nutritionals CGU has been determined using the following methodologies:

- Brands have been valued using a relief from royalty method to determine the fair value;
- Discounted cash flow forecast to determine the value-in-use of the CGU, utilising forecast cash flows for the period July 2020 to June 2025 and a terminal cash flow.

In calculating the value-in-use, the recoverable amount was below the carrying value due to lower than expected sales, in part due to the impacts of COVID-19. As a result an impairment of \$0.7m was recognised in the Consumer Nutritionals.

#### Note 16. Non-current assets - Intangibles (continued)

##### *Sensitivities*

If the long term growth rate used in the fair value calculation for the Consumer Nutritionals CGU had been 0.25% lower than management's estimates at 30 June 2020 (2.25% instead of 2.50%), the Group would have had to recognise a further impairment of \$0.8m.

If the post tax discount rate applied to the cash flow projections of this CGU had been 0.25% higher than management's estimates (9.5% instead of 9.25%), the Group would have had to recognise a further impairment of \$1.0m.

If the 3 year forecast CAGR of revenue from FY20-23 was 10% lower than management's estimates the Group would have had to recognise a further impairment of \$1.2m (\$0.5m brand and \$0.7m goodwill).

If the owned brand relief from royalty rate used in the fair value calculation for the Consumer Nutritionals CGU had been 0.50% lower than management's estimates at 30 June 2020, the Group would have had to recognise an impairment of \$0.3m.

The recoverable amount of these assets as at 30 June 2020 exceed the carrying amount by \$0.1m.

##### *Cereal and Snacks*

The Cereal and Snacks CGU produces branded grocery products for sale to domestic and international customers.

The recoverable amount of the Cereal and Snacks CGU has been determined using the following methodologies:

- Brands have been valued using a relief from royalty method to determine the fair value;
- Property, plant and equipment has been valued with reference to independent valuations to determine the fair value;

As part of the restatement of the financial statements the Group determined that it was appropriate to recognise an impairment of the goodwill, brands and property, plant and equipment of the Cereal and Snacks CGU, based on the revised assessment of expected future cashflows which indicated future losses. Refer to Note 3 for further details. An onerous contract provision was raised at the same time. The remaining carrying value of intangible assets in the CGU relate to the Crankt and Norganics brands. The recoverable amount of these assets as at 30 June 2020 exceed the carrying amount \$11.3m.

##### *Sensitivities*

If the owned brand relief from royalty rate used in the fair value calculation for the Cereal and Snacks CGU had been 0.50% lower than management's estimates at 30 June 2020, the Group would have had to recognise an impairment of \$0.1m (Norganics).

##### *Specialty Seafood*

The Specialty Seafood CGU produces branded seafood for sale to domestic and international customers and includes Paramount and Brunswick brands.

The recoverable amount of the Specialty Seafood CGU has been determined using the following methodologies:

- Brands have been valued using a relief from royalty method; and
- Discounted cash flow forecast to determine the fair value of the CGU, utilising forecast cash flows for the period July 2020 to June 2025 and a terminal cash flow.

The Group has recognised impairment of the Specialty Seafood brands of \$10.5m and impairment of goodwill of \$5.1m as at 30 June 2020 as a result of the decline in profitability and forecast cash flows which do not support the carrying value of the intangible assets in this CGU. There are no material assets remaining in this CGU subject to impairment testing under AASB 136 Impairment of Assets.

##### *Key assumptions*

In calculating the recoverable amount of each CGU a discounted cash flow model was utilised forecasting cash flows for the period FY21 to FY25. The following key assumptions were made:

**Note 16. Non-current assets - Intangibles (continued)**

Key assumptions used for goodwill impairment	Dairy and Nutritional %	Consumer Nutritional %	Specialty Seafood %
Long term growth rate (terminal value)	2.50%	2.50%	2.50%
Post tax discount rate	8.25%	9.25%	8.00%
Revenue growth rate*	8.20%	15.50%	2.10%

The Dairy and Nutritional CGU was loss making in FY20. The forecast assumes an EBITDA margin improvement of 5% from FY21-23. The Consumer Nutritional CGU forecast assumes a 3 year EBITDA CAGR of 28.4%. The Specialty Seafood CGU had a breakeven EBITDA in FY20 and the forecast assumes minimal change.

\*Compounded annual growth rate over 3 years from FY20-23.

Key assumptions used for brand impairment	Consumer Nutritional %	Cereal and Snacks %	Specialty Seafood %
Long term growth rate (Terminal rate)	2.50%	2.50%	2.50%
Post tax discount rate	9.25%	8.25%	8.00%
Owned brand - relief from royalty rate	5.85%	5.85%	1.00%
Revenue growth rate*	13.80%	44.40%	2.30%

\*Compounded annual growth rate over 3 years from FY20-23.

The recoverability of the assets is dependent on the Group's ability to improve their margins.

**Software**

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the asset's estimated useful life of ten years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Note 17. Current liabilities - Trade and other payables**

	Consolidated	
	2020 \$'000	2019 restated \$'000
Trade payables	81,277	93,206
Other payables and accruals	42,130	36,240
	<u>123,407</u>	<u>129,446</u>

	Consolidated	
	2020 \$'000	2019 restated \$'000
Payable to related parties (Note 35)	-	1,053
	<u>-</u>	<u>1,053</u>

Trade payables, including amounts payable for capital expenditure, are paid on average within 60 days of invoice date (FY19: 72 days).

**Note 17. Current liabilities - Trade and other payables (continued)**

**Significant accounting policies**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**Note 18. Current liabilities - Lease liabilities**

	Consolidated	
	2020	2019 restated
	\$'000	\$'000
Lease liabilities	2,304	-

**Note 19. Current liabilities - Borrowings**

	Consolidated	
	2020	2019 restated
	\$'000	\$'000
Term loan facilities	141,174	5,250
Recourse debtor financing facilities	15,466	20,926
Revolver financing facilities	36,176	-
Equipment financing facilities	99,508	22,846
	<u>292,324</u>	<u>49,022</u>

**Assets pledged as security**

The Group's primary bank facilities are arranged with HSBC Bank Australia Limited (HSBC) and National Australia Bank (NAB). They include syndicated facilities (from HSBC and NAB), equipment financing facilities (from NAB) and debtor financing facilities (from HSBC).

The Group has other bi-lateral facilities from a range of financiers including equipment finance and other general transactional banking facilities as required for the operations of the Group's business.

The syndicated facilities are secured over all the assets and undertaking of the Group (other than low value subsidiaries), as well as mortgages over real property owned by the Group and key property leases.

The equipment financing facilities relate to specific equipment operating at the Company's Leeton, Shepparton, Dandenong and Ingleburn operating sites. The equipment finance facilities are secured over the assets financed under the relevant facility. These facilities are over a period of 2 to 7 years and the final residuals on the current arrangements are due between 2020 and 2027.

## Note 19. Current liabilities - Borrowings (continued)

### Banking facilities

#### **Syndicated Facilities**

In December 2019, the Group entered into syndicated banking facilities for term loan and revolving facilities totalling \$141.2m. The syndicated facilities were subsequently amended in April 2020 and increased to \$241.2m, inclusive of a revolving facility with a \$50m limit. Under the original terms for the syndicated facilities, the facilities matured in December 2022, with the exception of the term loan of \$50.0m described as Facility C, which matured in April 2022. The change in the Group's banking facility structure is considered a debt modification under AASB 9.

#### **Debtor Finance Facilities**

HSBC has provided the Group with a limited recourse debtor finance facility of \$113.5m (FY19: \$60.0m), which is being utilised as a source of working capital. Under this facility, the Group sells receivables of its major grocery retail customers to HSBC in exchange for cash. These receivables are de-recognised as an asset, as the significant risk associated with the collection of the receivables is transferred to HSBC at the time of sale. The amount funded under this facility is not recognised as a liability by the Group. The funded amount under this facility as at 30 June 2020 was \$41.1m (FY19: \$46.8m).

The Group also has a full recourse debtor finance facility with total limit of \$22.0m (FY19: \$32.0m). Under this facility, the Group sells receivables from its out-of-home channel. The receivables are recognised as an asset since the risk has not fully transferred to HSBC at the time of sale. The Group is responsible for the collection of the receivables. HSBC has recourse to the Group if the debt is unrecoverable. As at the balance sheet date, the Group utilised an amount of \$15.5m (FY19: \$20.9m) from the full recourse debtor finance facility.

#### **Standstill**

The Group obtained a waiver from its financiers in respect of non-compliance with lending covenants at 30 June 2020 and subsequently entered a standstill agreement on 11 September 2020. The Group entered into a standstill agreement with its primary lenders, National Australia Bank Limited and HSBC Bank Australia Limited (Banks), pursuant to which the Banks have agreed, until 29 January 2021, not to take any action against the Group in respect of any amounts owing to the Banks under the Group's financing agreements with the Banks, unless the Company commits a breach of the standstill agreement. Given that the standstill agreement is expiring in January 2021, it is considered appropriate to classify all borrowings as current.

Refer to Note 20 for further information on assets pledged as security and financing arrangements.

## Note 20. Non-current liabilities - Borrowings

	Consolidated	
	2020 \$'000	2019 restated \$'000
Term loan facilities	-	87,100
Equipment financing facilities	-	41,295
	-	128,395

Refer to Note 30 for further information on financial instruments.

**Note 20. Non-current liabilities - Borrowings (continued)**

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2020 \$'000	2019 restated \$'000
Term loan facilities	141,174	92,350
Recourse debtor financing facilities	15,466	20,926
Revolver financing facilities	36,176	-
Equipment financing facilities	99,508	64,141
	<u>292,324</u>	<u>177,417</u>

In the statement of cash flows, the funds received from the bank under the limited recourse debtor facility are included in cash flows from operations as receipts from customers. Funding received from the full recourse debtor facility is included in the consolidated statement of cash flows under financing activities as proceeds from borrowings.

*Financing arrangements*

The total banking facilities as at 30 June 2020 are shown below:

	Consolidated	
	2020 \$'000	2019 restated \$'000
Total facilities		
Term loan facilities	141,174	92,350
Recourse debtor financing facilities	22,000	32,000
Revolver financing facilities	100,000	30,000
Equipment financing facilities	115,000	69,753
	<u>378,174</u>	<u>224,103</u>
Used at the reporting date		
Term loan facilities	141,174	92,350
Recourse debtor financing facilities	15,466	20,926
Revolver financing facilities	36,176	-
Equipment financing facilities	99,508	64,141
	<u>292,324</u>	<u>177,417</u>
Unused at the reporting date		
Term loan facilities	-	-
Recourse debtor financing facilities	6,534	11,074
Revolver financing facilities	63,824	30,000
Equipment financing facilities	15,492	5,612
	<u>85,850</u>	<u>46,686</u>

**Unused financing facilities**

The Group had unused banking facilities relating to recourse debtor, revolver and equipment financing amounting to \$85.9m (FY19: \$46.7m) as at 30 June 2020. The Group had a total non-recourse debtor financing facilities of \$113.5m (FY19: \$60.0m).

The undrawn revolver amounts were subsequently cancelled as part of the standstill arrangements signed in September 2020 and replaced by the \$45.0m subordinated facility provided in connection with the standstill. As part of the standstill the Group's total non-recourse debtor financing facility limit was reduced to \$65.0m.

**Note 21. Non-current liabilities - Lease liabilities**

	Consolidated	
	2020 \$'000	2019 restated \$'000
AASB 16 lease liability	192,341	-

Refer to Note 30 for further information on financial instruments.

**Significant accounting policies**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Variable lease payments not included in the initial measurement of the lease liability are recognised directly in profit or loss. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index of rate or a change in the amount expected to be payable under a residual value guarantee; or
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

**Note 22. Current liabilities - Derivative financial instruments**

	Consolidated	
	2020 \$'000	2019 restated \$'000
Forward foreign exchange contracts	127	48
Interest rate swap contracts	2,202	1,063
	<u>2,329</u>	<u>1,111</u>

Refer to Note 30 for further information on financial instruments.

Note 23. Income tax benefit

	Consolidated	
	2020 \$'000	2019 restated \$'000
<i>Income tax benefit</i>		
Adjustments recognised in the current year in relation to the current tax of prior years	(18)	189
Deferred tax (income)/expense relating to the origination and reversal of temporary differences	(83)	(1,040)
Aggregate income tax benefit	<u>(101)</u>	<u>(851)</u>
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(174,609)	(146,678)
Tax at the statutory tax rate of 30%	(52,383)	(44,003)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Effect of expenses that are not deductible in determining taxable profit	140	1,980
Over-provision in respect of prior years	(18)	189
Non-assessable income	(176)	(578)
	(52,437)	(42,412)
Current year tax losses not recognised	45,764	25,914
Current year temporary differences not recognised	6,274	15,386
Effect of overseas tax rates	298	261
Income tax benefit	<u>(101)</u>	<u>(851)</u>
<i>Amounts recognised in OCI and statement of changes in equity and other income tax restatement</i>		
Revaluation surplus on land and building	176	224
Tax on share issue costs	(75)	(1,140)
Tax reclassification arising from prior year acquisition	-	1,767
	<u>101</u>	<u>851</u>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

**Significant accounting policies**

**Current tax**

Current tax is calculated as the expected amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting date.

### Note 23. Income tax benefit (continued)

#### Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The amount of the benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

#### Uncertain tax position

If the Group concludes that it is not probable the tax authorities will accept a tax position, it uses the “most likely amount” or “expected value” in determining its tax balances. Any subsequent variation between the “most likely amount/expected value” and the amount recorded in the consolidated financial statements are adjusted in the period in which such variation occurs.

### Note 24. Non-current assets - Deferred tax

Deferred tax comprises temporary differences attributable to the following:

	Consolidated	
	2020 \$'000	2019 restated \$'000
Deferred tax asset	-	-
Provisions	6,753	4,865
Lease liabilities	58,385	-
Finance facilities	29,852	29,835
Deferred tax asset	<u>94,990</u>	<u>34,700</u>
Deferred tax liability	-	-
Property, plant and equipment	(19,994)	(19,941)
Right of use asset	(51,683)	-
Intangibles	(6,437)	(9,602)
Other	(16,876)	(5,157)
Deferred tax liability	<u>(94,990)</u>	<u>(34,700)</u>
	<u>-</u>	<u>-</u>

Carry forward tax losses of \$392m (FY19 restated: \$239m), have not been recognised in deferred tax. In addition, \$23m of deferred tax assets have been de-recognised in the current year (FY19 restated: \$15m).

**Note 24. Non-current assets - Deferred tax (continued)**

Deferred tax movements are as follows:

	Consolidated	
	2020 \$'000	2019 restated \$'000
Deferred tax (liability)/asset	-	-
<i>Movements:</i>		
Opening balance	-	-
Provisions	2,919	613
Property, plant and equipment	(546)	(14,073)
Intangibles	2,946	(1,769)
Lease Liabilities	58,574	-
Right of Use Asset	(51,692)	-
Finance facilities	(2,378)	21,043
Other	(9,823)	(5,815)
Closing balance	-	-

**Note 25. Current liabilities - Provisions**

	Consolidated	
	2020 \$'000	2019 restated \$'000
Annual leave	5,843	5,441
Long service leave	714	1,271
	<u>6,557</u>	<u>6,712</u>

**Significant accounting policies**

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

**Note 26. Non-current liabilities - Provisions**

	Consolidated	
	2020 \$'000	2019 restated \$'000
Long service leave	525	284
Lease make good	1,116	1,068
Onerous lease	-	3,759
	<u>1,641</u>	<u>5,111</u>

Note 26. Non-current liabilities - Provisions (continued)

**Significant accounting policies**

*Lease make good provisions*

Lease make good provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

*Long service leave*

The liability for long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 27. Equity - Issued Capital

	2020 Shares	Consolidated 2019 restated Shares	2020 \$'000	2019 restated \$'000
Ordinary shares - fully paid	277,109,319	272,903,282	598,698	589,109
Convertible redeemable preference shares - fully paid	101,130	101,627	14	14
	<u>277,210,449</u>	<u>273,004,909</u>	<u>598,712</u>	<u>589,123</u>

**Movements in ordinary share capital**

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2018	243,983,810		453,374
Dividend reinvestment plan ('DRP') shares		889,640	\$4.79	4,265
Dividend reinvestment plan ('DRP') shares		836,368	\$4.31	3,604
Shares issued under the entitlement offer		27,193,464	\$4.80	130,532
Transaction costs - net of tax		-	\$0.00	(2,666)
Balance	30 June 2019	272,903,282		589,109
Employee share options exercised		561,666	\$1.65	927
Employee share options exercised		900,000	\$2.92	2,628
Employee service rights exercised		1,545,000	\$0.00	-
Convertible redeemable preference shares ('CRPS') conversions		497	\$0.30	-
Dividend reinvestment plan ('DRP') shares		1,198,874	\$5.18	6,211
Transaction costs - net of tax		-	\$0.00	(177)
Balance	30 June 2020	<u>277,109,319</u>		<u>598,698</u>

Note 27. Equity - Issued Capital (continued)

**Movements in convertible redeemable preference shares**

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2019	101,627		14
Conversion to ordinary shares		-	\$0.30	-
Balance	30 June 2019	101,627		14
Conversion to ordinary shares		(497)	\$0.30	-
Balance	30 June 2020	<u>101,130</u>		<u>14</u>

**Ordinary shares**

Fully paid ordinary shares carry one vote per share and carry the right to dividends. The Company does not have a limited amount of authorised capital and issued shares do not have a par value.

The DRP provides shareholders with the opportunity to receive ordinary shares, in lieu of cash dividends, at a discount (set by the directors) from the market price at the time of issue.

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Convertible redeemable preference shares (CRPS)**

The CRPS are perpetual with no maturity, but redeemable after 3 years at the option of the Company. The CRPS are transferable and are convertible at the option of the CRPS holder. The dividend rate is 9.0% p.a. on the issue price of \$0.30. It is a preferred, discretionary and non-cumulative dividend and CRPS holders have no claim or entitlement in respect of a non-payment.

Dividends are to be payable half-yearly in arrears. CRPS holders who convert their CRPS prior to a dividend payment date will not be entitled to any dividend for that part period in respect of that CRPS. However upon conversion to ordinary shares a holder who is on the register on the record date for a dividend payable in respect of ordinary shares will be entitled to the full ordinary dividend for that period. Dividends on the CRPS will be payable in April and November each year until converted or redeemed. CRPS holders are entitled to receive dividends in priority to holders of ordinary shares and equally with the holders of other CRPS that may be issued by Company on these terms.

CRPS are convertible into fully paid ordinary shares in the Company on the basis that each CRPS is convertible at the election of the CRPS holder into one ordinary share, subject to any restrictions imposed by the Corporations Act and ASX Listing Rules. There is no time limit within which CRPS must be converted. No additional consideration is payable on conversion.

Notwithstanding the right of holders of CRPS to convert at any time, all CRPS will convert into ordinary shares automatically on the occurrence of certain trigger events including certain transactions involving a change in control of Company, such as a takeover of Company or a scheme or merger between Company and another body.

The Company may redeem the CRPS, 3 years from the date of issue of the CRPS, being 16 December 2013, at its option for the payment per CRPS of the higher of:

- the issue price of \$0.30; and
- an amount determined by the Board of the Company with reference to the value of a CRPS as determined by an independent expert appointed by the Board.

The Company at this time has no plans to redeem the remaining CRPS still on issue.

**Share options granted under the Employee Share Option Plan (ESOP) and Equity Incentive Plan (EIP)**

For information relating to the Freedom Foods Group Limited ESOP and EIP, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year end, refer to Note 37.

## Note 28. Equity - Dividends

### Dividends

On 27 February 2020, the directors declared an unfranked interim dividend of 2.25 cents per share to the holders of fully paid ordinary shares in respect of the half year financial results ending 31 December 2019. On 29 May 2020, the Company announced that it was cancelling the dividend declared on 27 February 2020. There will be no final dividend declared for FY20.

Dividends paid during the financial year were as follows:

	Consolidated	
	2020 \$'000	2019 restated \$'000
Final unfranked dividend of 3.25 cents per ordinary share paid in cash during the year ended 30 June 2020 (FY19: 2.75 cents 50% franked)	2,658	2,445
Dividends reinvested: unfranked at 30% tax rate (FY19: 50% franked)	6,211	7,869
Interim 50% franked dividend of 2.25 cents per ordinary share paid in cash during the year ended 30 June 2019	-	1,906
Final unfranked dividend of 1.35 cents per convertible redeemable preference share paid in cash during the year ended 30 June 2020 (FY19: 1.35 cents 50% franked)	1	1
Interim 50% franked dividend of 1.35 cents per convertible redeemable preference share paid in cash during the year ended 30 June 2019	-	1
	8,870	12,222
	8,870	12,222

The Dividend Reinvestment Plan (DRP) is no longer open.

### Franking credits

	Consolidated	
	2020 \$'000	2019 restated \$'000
Franking credits available at the reporting date based on a tax rate of 30%	812	812
Net franking credits available	812	812

## Note 29. Equity - Reserves

	Consolidated	
	2020 \$'000	2019 restated \$'000
Land and buildings revaluation reserve	3,548	3,137
Common control reserve	(60,878)	(60,878)
Foreign currency translation reserve	(123)	(260)
Equity-settled employee benefits reserve	1,602	13,251
	(55,851)	(44,750)
	(55,851)	(44,750)

### Land and buildings revaluation reserve

The land and buildings revaluation reserve arises on the revaluation of land and buildings. Where a revalued land or building is sold that portion of the asset revaluation reserve which relates to the asset and is effectively realised, is transferred directly to retained earnings.

## Note 29. Equity - Reserves (continued)

### Foreign currency translation reserve

The foreign currency translation reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

### Equity-settled employee benefits reserve

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the Employee Share Option Plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share based payments to employees is made in Note 37 to the financial statements.

### Common control reserve

The common control reserve is used to account for the acquisition of Pactum Australia and Pactum Dairy Group by the Group. The difference between the fair value of the consideration paid and the existing book values of the assets & liabilities of Pactum Australia has been debited to a common control reserve (\$5.4m). On 31 January 2017, the reserve was increased due to the additional interest acquired in Pactum Dairy Group. The difference between the fair value of the consideration paid and the non-controlling interest balance on that date has been debited to a common control reserve (\$55.4m). Upon disposal of all interests in Pactum Australia or Pactum Dairy Group by the Group, the applicable reserve would be transferred to retained earnings.

### Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Land and buildings revaluation reserve \$'000	Foreign currency translation reserve \$'000	Equity-settled employee benefits reserve \$'000	Common control reserve \$'000	Total \$'000
Balance at 1 July 2018	2,416	(193)	3,636	(60,878)	(55,019)
Prior year restatement (Note 3)	199	-	3,367	-	3,566
Land and building revaluation	522	-	-	-	522
Foreign currency translation	-	(67)	-	-	(67)
Share-based payments	-	-	6,248	-	6,248
Balance at 30 June 2019 restated	3,137	(260)	13,251	(60,878)	(44,750)
Land and building revaluation - net of tax	411	-	-	-	411
Foreign currency translation	-	137	-	-	137
Share based payment	-	-	(418)	-	(418)
Transfer of share based payments to accumulated losses	-	-	(11,231)	-	(11,231)
Balance at 30 June 2020	3,548	(123)	1,602	(60,878)	(55,851)

## Note 30. Financial instruments

### Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity balances.

The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in their respective notes.

### Note 30. Financial instruments (continued)

Operating cash flows are used to maintain and expand the Group's manufacturing and distribution assets, as well as to make routine payments for tax, dividends and repayment of debt. The Group's policy is to borrow centrally; using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

#### Market risk

The Group's activities expose it primarily to the financial risk of changes in foreign currency exchange rates and interest rates. The Group adopts a natural hedge approach and enters into forward exchange and option contracts to manage net foreign currency risk on its imports and exports.

#### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

#### Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to hedge specified amounts of foreign currencies in the future at stipulated exchange rates. The objective of entering into the forward exchange contracts is to protect the Group against unfavourable exchange rate movements for the contracted purchases and sales undertaken in foreign currencies.

The Group had entered into contracts (for terms not exceeding 12 months) to purchase finished goods and raw materials from suppliers in the United States, Europe and Canada, equipment from Europe and receives sales receipts denominated in United States dollars Chinese Yuan and Singapore dollars from export customers. The contracts relate to highly probable forecasted transactions for the purchase of inventory for the Specialty Seafood business (Salmon - USD and Sardines - CAD and Euro), the plant based beverages business (Almond paste - USD), capital equipment purchases (Euro) and sales receipts from export customers with the purchase consideration being either settled in the above currencies or applied against sales receipts from export customers. In financial year 2020-21, the Group has forecasted that it will be a net receiver of USD. The Group has entered into a combination of foreign exchange forward and option contracts. The Group had USD 44,700,000 (Sell) and EUR 215,207 (Buy) outstanding foreign exchange contracts as at 30 June 2020.

The Group does not currently adopt hedge accounting.

The following table details the forward foreign exchange contracts outstanding as at reporting date in Australian dollars:

	Sell Australian dollars		Average exchange rates	
	2020	2019 restated	2020	2019 restated
	\$'000	\$'000		
<b>Buy US dollars</b>				
Maturity:				
0 - 3 months	-	17,638	-	0.7090
<b>Buy EUR</b>				
Maturity:				
0 - 3 months	216	-	0.6011	-

Note 30. Financial instruments (continued)

	Sell US dollars		Average exchange rates	
	2020 \$'000	2019 restated \$'000	2020	2019 restated
<b>Buy Australian dollars</b>				
Maturity:				
0 - 3 months	14,150	10,236	0.6677	0.7093
3 - 6 months	15,050	-	0.6671	-
6 - 12 months	15,500	-	0.6557	-

The following table details the forward foreign exchange and foreign exchange option contracts at fair value as at reporting date in Australian dollars:

	Consolidated	
	2020 \$'000	2019 restated \$'000
Buy US dollars - less than 3 months	(122)	200
Buy EUR - less than 3 months	(6)	-
Sell US dollars - less than 3 months	610	38
Sell US dollars - 3-6 months	663	-
Sell US dollars - 6-12 months	1,231	-
Net fair value	<u>2,376</u>	<u>238</u>

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Consolidated	Assets	Assets	Liabilities	Liabilities
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
US Dollar	20,983	24,179	7,449	10
Canadian Dollar	6	5	-	61
Euro	-	-	588	1,518
Thai Baht	-	-	-	293
New Zealand Dollar	-	-	579	10
Chinese Yuan	17,888	32	1,098	266
Singapore Dollar	-	-	233	62

**Foreign currency sensitivity analysis**

The following table details the sensitivity to an increase/decrease in the Australian dollar against the relevant currencies in relation to foreign exchange exposures. Sensitivity rates of 5% (USD), 3% (EUR), 4% (CNY) and 3% (SGD) have been used as these represent management's assessment of a likely maximum change in foreign exchange rates.

A positive number indicates an increase in profit where the Australia Dollar strengthens against the respective currency. For a weakening of the Australia Dollar against the respective currency there would be an equal and opposite impact on the profit and the balances below would be negative.

The foreign currency sensitivity analysis sets out the sensitivity to variations in exchange rate on foreign currency receivables, payables and cash and cash equivalents at year end in the Group.

Note 30. Financial instruments (continued)

Consolidated - 2020	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
US dollar	5%	(1,094)	(1,094)	5%	1,207	1,207
Euro	3%	29	29	3%	(31)	(31)
Chinese Yuan	4%	(129)	(129)	4%	140	140
Singapore dollars	3%	(8)	(8)	3%	8	8
		<u>(1,202)</u>	<u>(1,202)</u>		<u>1,324</u>	<u>1,324</u>

Consolidated - 2019 restated	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
US dollar	3%	(951)	(951)	3%	902	902
Euro	2%	(53)	(53)	2%	50	50
Chinese Yuan	3%	(2)	(2)	3%	2	2
Singapore dollars	2%	(1)	(1)	2%	1	1
		<u>(1,007)</u>	<u>(1,007)</u>		<u>955</u>	<u>955</u>

**Interest rate risk management**

The Group is exposed to interest rate risk as it borrows funds using both fixed and floating interest rates. The Group manages this risk by maintaining an appropriate mix between fixed and floating rate borrowings and by interest rate swaps.

Exposures to interest rate risk, which is the risk that a financial instrument's value, its borrowing costs or interest income will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial instruments are set out below:

Consolidated	2020		2019 restated	
	Weighted average effective interest rate %	Balance \$'000	Weighted average effective interest rate %	Balance \$'000
Cash and cash equivalents	-	17,167	-	55,385
Term loan facilities (variable interest rate)	5.10%	(141,174)	5.61%	(92,350)
Recourse debtor financing facilities (variable interest rate)	3.35%	(15,466)	4.41%	(20,926)
Revolver financing facilities (variable interest rate)	4.95%	(36,176)	-	-
Equipment financing facilities (fixed interest rate)	4.71%	<u>(99,508)</u>	5.26%	<u>(64,141)</u>
		<u>(275,157)</u>		<u>(122,032)</u>

The Group has entered into interest rate swaps to manage up to 50% of the variable interest rate exposure on the term loans. The following table details the interest rate swap contracts at fair value as at reporting date in Australian dollars:

Note 30. Financial instruments (continued)

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Less than 1 year	(522)	(276)
More than 1 year	(1,680)	(787)
	<u>(2,202)</u>	<u>(1,063)</u>

**Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the impact of 25 basis point increase in interest rates on exposure to interest rates as detailed in the above table.

The impact of a 25 basis point (FY19: 25 basis point) interest rate movement during the year with all other variables being held constant would be an increase/(decrease) on the Group's net loss of \$141,276 (FY19: \$294,565). This is attributable to the Group's exposure to interest rates on its variable borrowings.

A 25 basis point movement represents management's assessment of the possible change in interest rates.

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted the policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. The impact of COVID-19 on the trading position of some of the Group's smaller OOH customers has resulted in the need to provide for possible losses.

For trade receivables, the Group has applied the simplified approach in AASB 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

Note 10 includes further details on the loss allowance for these assets.

The credit risk on liquid funds is limited because the Group only deposits monies with Australian banking counterparties with high credit ratings assigned by international credit rating agencies.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at statement of financial position date, to recognised financial assets of the Group which have been recognised on the statement of financial position is the carrying amount, net of any allowance for doubtful debts.

**Liquidity risk management**

Liquidity risk arises from the possibility that the Group may be unable to settle a transaction on the due date. The ultimate responsibility for liquidity risk management rests with the Board of Directors and executive management. The Group manages risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Included in Note 20 is detail of the current status of funding facilities.

Note 30. Financial instruments (continued)

Consolidated 2020

	Carrying amount	Weighted average effective interest rate %	Contractual cash flow		
			Less than 1 year	Between 1 and 5 years	Total
Non-interest bearing					
Trade and other payables	123,407	-	123,407	-	123,407
Interest bearing - variable					
Term loan facilities	141,174	5.10%	163,465	-	163,465
Recourse debtor financing facilities	15,466	3.35%	15,478	-	15,478
Revolver financing facilities	36,176	4.95%	41,905	-	41,905
Interest bearing - fixed					
Equipment financing facilities	99,508	4.71%	99,516	-	99,516
	<u>415,731</u>		<u>443,771</u>	<u>-</u>	<u>443,771</u>

Consolidated 2019

	Carrying amount	Weighted average effective interest rate %	Contractual cash flows		
			Less than 1 year \$'000	Between 1 and 5 years \$'000	Total \$'000
Non-interest bearing					
Trade and other payables	129,446	-	129,446	-	129,446
Payable to related parties	1,053	-	1,053	-	1,053
Interest bearing - variable					
Term loan facilities	92,350	5.61%	5,492	91,984	97,476
Recourse debtor financing facilities	20,926	4.41%	21,849	-	21,849
Interest bearing - fixed					
Equipment financing facilities	64,141	5.26%	25,496	49,473	74,969
	<u>307,916</u>		<u>183,336</u>	<u>141,457</u>	<u>324,793</u>

**Fair value of financial instruments**

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

For financial instruments measured and carried at fair value, the Group uses the following to categorise the methods used:

- Level 1: fair value is calculated using quoted prices in active markets for identical assets or liabilities.
- Level 2: fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3: fair value is estimated using inputs for the asset or liability that are not based on observable market data.

### Note 30. Financial instruments (continued)

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including forward foreign exchange contracts and options. Derivative financial instruments are classified as Level 2, as the fair values are calculated based on observable market interest rates and foreign exchange rates. The fair values of interest rate derivatives are calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of the foreign currency forwards are calculated as the difference between the forward rate and the spot exchange rate at the balance sheet date.

The Group has not adopted hedge accounting during the financial year or previous corresponding period.

During the year there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

#### Financial risk management objectives

The Group's financial management team provides services to each of the group businesses, and co-ordinates access to domestic and international financial markets, for the purpose of monitoring and managing the financial risks relating to the operations of the Group.

The Group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk and interest rate hedging risk. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

	Consolidated 2020 \$'000	Consolidated 2019 restated \$,000
Debt*	292,324	177,417
AASB 16 lease liabilities	194,645	-
Cash and cash equivalents	(17,167)	(55,385)
Net debt	469,802	122,032
Equity**	60,999	234,657

\* Debt is defined as long and short-term borrowings, as detailed in the notes to the financial statements.

\*\* Equity includes all capital and reserves.

### Note 31. Capital commitments and contingent liabilities

	Consolidated 2020 \$'000	Consolidated 2019 restated \$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities:		
Plant and equipment	5,782	10,111

	Consolidated 2020 \$000	Consolidated 2019 \$000
<i>Contingent liabilities</i>		
Contingencies at the reporting date but not recognised as liabilities:		
Bank guarantees provided in the normal course of business for certain property leases	1,036	1,036

At 30 June 2020, Blue Diamond Growers and certain Group subsidiaries including Freedom Foods Pty Limited, had some ongoing commercial disputes, which could if not resolved, result in litigation and future provisions. Please refer to Note 42 for further information.

### Note 32. Interests in subsidiaries

The Consolidated Statement of profit or loss and other comprehensive income and Statement of financial position of the entities party to the deed of cross guarantee is the Consolidated Statement of profit or loss and other comprehensive income and Statement of financial position included in the 2020 financial statements.

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 restated %
Paramount Seafoods Pty Limited*	Australia	100.00%	100.00%
Freedom Foods Group Operations Pty Limited*	Australia	100.00%	100.00%
Freedom Foods Group Financing Pty Limited*	Australia	100.00%	100.00%
Freedom Foods Pty Limited*	Australia	100.00%	100.00%
Pactum Australia Pty Limited*	Australia	100.00%	100.00%
Pactum Dairy Group Pty Limited*	Australia	100.00%	100.00%
Freedom Foods Group IP Pty Limited*	Australia	100.00%	100.00%
Thorpedo Foods Group Pty Limited*	Australia	100.00%	100.00%
Thorpedo Foods Pty Limited	Australia	75.00%	75.00%
Thorpedo Seafoods Pty Limited	Australia	75.00%	75.00%
Freedom Foods North America Inc	North America	80.00%	80.00%
Freedom Foods Group Dandenong Pty Limited (formerly Popina (Vic) Pty Limited)*	Australia	100.00%	100.00%
Freedom Foods Group Ingleburn Pty Limited*	Australia	100.00%	100.00%
Freedom Foods Group Nutritionals Pty Limited*	Australia	100.00%	100.00%
Freedom Foods Group Trading Pty Limited*	Australia	100.00%	100.00%
Crankt Protein International Pty Limited	Australia	100.00%	100.00%
Freedom Foods Shanghai Co. Limited	China	100.00%	100.00%
Freedom Foods Singapore Pte Limited	Singapore	100.00%	100.00%

### Note 33. Deed of cross guarantee

The following companies in the Group have entered into a deed of cross guarantee as a condition to obtaining relief under Corporations (Wholly owned companies) Instrument 2016/785 from the Corporations Act 2001 requirements to prepare and lodge audited financial statements and a directors' report.

Freedom Foods Group Limited  
Paramount Seafoods Pty Limited  
Freedom Foods Group Operations Pty Limited  
Freedom Foods Group Financing Pty Limited  
Freedom Foods Pty Limited  
Pactum Australia Pty Limited  
Thorpedo Foods Group Pty Limited  
Freedom Foods Group Dandenong Pty Limited (formerly Popina (Vic) Pty Limited)  
Pactum Dairy Group Pty Limited  
Freedom Foods Group Trading Pty Limited

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Freedom Foods Group Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of profit or loss, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 30 June 2020 of the Closed Group.

Note 33. Deed of cross guarantee (continued)

Consolidated statement of comprehensive income

	Consolidated	
	2020	2019 restated
	\$'000	\$'000
Revenue from sale of goods	567,190	449,039
Cost of sales	(536,646)	(469,401)
Gross profit	30,544	(20,362)
Other (expenses)/income	(352)	2,548
Foreign exchange gain/(loss)	2,339	(124)
Expenses		
Marketing expenses	(24,533)	(21,481)
Selling and distribution expenses	(68,555)	(55,698)
Administrative expenses	(31,494)	(29,425)
Provision for doubtful debts	(3,639)	(1,800)
Impairment of non-financial assets	(64,096)	(10,378)
Net finance costs	(15,409)	(9,704)
Share of profits/(losses) of associates accounted for using the equity method	586	(254)
Loss before income tax	(174,609)	(146,678)
Income tax benefit	101	851
Loss after income tax	(174,508)	(145,827)

Consolidated statement of financial position

	Consolidated	
	2020	2019 restated
	\$'000	\$'000
<b>Assets</b>		
Current assets		
Cash and cash equivalents	16,517	55,383
Trade and other receivables	61,830	65,740
Receivables from related parties	106,963	69,873
Loan due from a related party	14,464	-
Inventories	53,938	62,488
Derivative financial instruments	2,504	287
Prepayments	1,891	3,123
Total current assets	258,107	256,894
Non-current assets		
Investment in subsidiaries - at cost	904	595
Investments accounted for using the equity method	22,077	18,476
Property, plant and equipment	161,360	192,290
Right-of-use assets	42,664	-
Intangibles	12,170	28,038
Total non-current assets	239,175	239,399
Total assets	497,282	496,293

Note 33. Deed of cross guarantee (continued)

	Consolidated	
	2020 \$'000	2019 restated \$'000
<b>Liabilities</b>		
Current liabilities		
Trade and other payables	83,111	71,894
Payable to related parties	-	1,053
Borrowings	292,324	49,022
Lease liabilities	524	-
Derivative financial instruments	2,507	1,111
Provisions	4,635	5,064
Total current liabilities	<u>383,101</u>	<u>128,144</u>
Non-current liabilities		
Borrowings	-	128,395
Lease liabilities	51,642	-
Provisions	1,540	5,097
Total non-current liabilities	<u>53,182</u>	<u>133,492</u>
Total liabilities	<u>436,283</u>	<u>261,636</u>
Net assets	<u>60,999</u>	<u>234,657</u>
<b>Equity</b>		
Issued Capital	598,712	589,123
Reserves	(55,851)	(44,750)
Accumulated losses	<u>(481,862)</u>	<u>(309,716)</u>
Total equity	<u>60,999</u>	<u>234,657</u>

Note 34. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent 2020 \$'000	Parent 2019 restated \$'000
Loss after income tax	(158,622)	(159,328)
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income	<u>(158,622)</u>	<u>(159,328)</u>

**Note 34. Parent entity information (continued)**

*Statement of financial position*

	Parent 2020 \$'000	Parent 2019 restated \$'000
Total current assets	-	-
Total non-current assets	61,048	221,738
Total current liabilities	(49)	(57)
Net assets	<u>60,999</u>	<u>221,681</u>
<b>Equity</b>		
Issued capital	598,712	589,123
Reserves	1,602	13,251
Accumulated losses	<u>(539,315)</u>	<u>(380,693)</u>
	<u>60,999</u>	<u>221,681</u>

Certain items in the table set out above related to the 2019 comparative have been restated. For details on the restatement of comparatives, refer Note 3.

Freedom Foods Group Limited on 30 November 2020, provided a letter of support stating it will provide financial support to certain controlled entities, at their request, to ensure that those subsidiaries are at all times able to pay all debts and liabilities owed by them, as they become due and payable in the normal course of business.

**Note 35. Related party transactions**

*Subsidiaries*

Interests in subsidiaries are set out in Note 32.

*Associates*

Interests in associates are set out in Note 13.

*Joint ventures*

Interests in joint ventures are set out in Note 13.

*Key management personnel*

Disclosures relating to key management personnel are set out in Note 36 and the remuneration report included in the Directors' report.

Note 35. Related party transactions (continued)

Transactions with related parties

Other related parties include:

- entities with joint control or significant influence over the Group;
- joint ventures in which the entity was a venturer;
- subsidiaries; and
- other related parties.

The following transactions occurred with related parties:

	Consolidated 2020 \$	2019 restated \$
Sale of goods and services during the year:		
Sale of goods to JLL	21,699,884	23,648,802
Purchase of goods and services during the year:		
Milk purchases from Leppington Pastoral Company	-	1,076,995
Milk purchases from Fresh Dairy One Pty Limited (wholly owned subsidiary of AFMH)	-	3,684,844
Milk purchases from Fresh Dairy Four Pty Limited (wholly owned subsidiary of AFMH)	12,308,452	-
Recycling services from Direct Group Industries (50% owned by Arrovest Pty Limited)*	11,048	25,261
Payment for rent and interest during the year:		
Payment of rent and outgoings under a lease commitment with Perich Property Holdings at Shepparton and Head Office (related entity through common Directors)	4,874,354	3,959,047
Payment of rent and outgoings under a lease commitment with Perich Property Unit Trust at Ingleburn (related entity through common Directors)	8,574,354	9,283,120
Payment of principal and interest to Arrovest Pty Limited against short term loan facility	848,892	1,125,737
Amount payable at the end of the year:		
AASB 16 Lease liability with Perich Property Holdings at Shepparton and Head Office (related entity through common Directors)	49,368,532	-
AASB 16 Lease liability with Perich Property Unit Trust at Ingleburn (related entity through common Directors)	138,696,637	-
Payable for rent and outgoings under a lease commitment with Perich Property Holdings		273,956
Payable to Arrovest Pty Limited	-	778,300
Interest payable to Arrovest Pty Limited	-	70,592
Reimbursement for capital costs deemed to be landlord costs during the year:		
Reimbursement of capital costs incurred by the Group that were deemed to be landlord costs of Perich Property Holdings at Shepparton (related entity through common Directors)	1,687,970	-

\* Direct Group Industries was sold during FY20.

Terms and conditions

All related party transactions were made on normal commercial terms and conditions and at market rates.

### Note 36. Key management personnel disclosures

#### Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2020	2019 restated
	\$	\$
Short-term employee benefits	2,425,527	2,163,149
Post-employment benefits (superannuation contribution)	143,988	132,010
Long-term benefits (long service leave expense)	208,397	178,212
Share-based benefits*	(1,265,162)	3,406,159
	<u>1,512,750</u>	<u>5,879,530</u>

\*The share based benefits for the year is negative due to the reversal of previously recognised share based expense arising from forfeiture of share options granted to key management personnel.

### Note 37. Share-based payments

In the year ended 30 June 2020, senior employees were eligible to participate in the employee share scheme under which executives are issued options or service rights to acquire shares in the Parent. Each employee share option or service rights converts into one ordinary share of the Parent on exercise. No amounts are paid or payable by the recipient on receipt of the option or service rights. The options or service rights carry neither rights to dividends nor voting rights. Options or service rights may be exercised at any time from the date of vesting to the date of their expiry. Some of the option series have performance-based conditions attached to them (1 July 2015, 1 October 2017 and 18 April 2019 options). The non-performance based options or service rights have no condition other than continuing employment.

The outstanding options vest as follows:

#### 1 July 2013 Options (Series 4)

There are no performance criteria that needed to be met in relation to 1 July 2013 series options. These options vested over a period of 3 years and relate to an employee's service period only. The terms of issue of the options provided for an expiry date of 30 June 2018 which was later extended without authorisation of the Board. The 2018 and 2019 remuneration report and consolidated financial statements of the Group indicated an expiry date for these options of 1 September 2019. 561,666 Shares were issued on 5 November 2019 on claimed exercise of these options based on an exercise price of \$1.65 per Share.

#### 1 July 2015 Options (Series 6)

These options had a 5 year exercise period, with vesting criteria as per the below:

- 1,200,000 of options on achievement of audited Group operating EBITDA of A\$44.5 million;
- 1,200,000 of options on achievement of audited Group operating EBITDA of A\$51.5 million; and
- 1,600,000 of options on achievement of audited Group operating EBITDA of A\$63.5 million.

These options were issued to the former Managing Director and the former CEO - Commercial Operations Australasia, both of whom resigned during the year ended 30 June 2020. 1.6 million options did not vest and the former Managing Director forfeited 1.5 million options which had vested. During the year, the former CEO - Commercial Operations Australasia exercised 900,000 options which had vested based on reported results. All options in this series have now either expired or been exercised during the year.

Note 37. Share-based payments (continued)

**1 October 2017 Options (Series 7 and 8)**

Of the first series of 2,250,000 options (Series 7), 60% vested in FY18 and the balance vested in FY19 based on reported results. While the options had vested in part in FY18, they had been unable to be exercised due to trading blackout periods. The series expired on 1 October 2019 without any options being exercised, however assurances had been provided to employees prior to that date that the terms would be altered to enable them to benefit from the scheme.

To rectify the impact on employees of the restricted capacity to exercise their options, the Board decided that the Company issue 160,000 service rights in lieu of Series 7 options to those affected employees. All of the service rights were exercised and 160,000 shares were issued on 20 April 2020. The service rights were valued by reference to the market price of the Company's shares on the date of issue. The service rights have been accounted for as a modification to the original options issued with a true up of the difference between the fair value of the service rights issued and the original options issued, reflected in FY20.

Based on reported results, 80% of the second series of 2,250,000 options (Series 8) vested in FY19. None of the vested options were exercised before the expiry date of 1 October 2020. The remaining 20% did not vest before the expiry date.

**18 April 2019 Options (Series 9)**

This series, with an expiry date of 30 November 2020, have not vested given the performance of the two related financial years FY19 (as restated) and FY20.

**Other issues of rights to acquire shares**

On 23 March 2020, the Group issued service rights to employees who had been issued letters of offer of options in 2014 by the former Managing Director. The 2014 offer of options by the then Managing Director were not authorised by the Board. Following the Board becoming aware of the 2014 offer of options, it decided to honour the commitment and offered 1,385,000 service rights to affected employees, the terms of which related only to continuing employment during the period of the service rights. The service rights have been accounted for assuming the original offer was valid and have been expensed over the vesting period (refer to Note 3 for details of the associated restatement) with a true up in FY20 to the final fair value of the service rights issued reflected in FY20. The service rights were exercised in full prior to their expiry on 31 March 2020.

2020

Grant Date	Expiry Date	Series	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ Forfeited/ Lapsed	Balance at the end of the year	Vested and exercisable
01/07/2013	01/09/2019	Series 4	\$1.65	561,666	-	(561,666)	-	-	-
01/07/2015	30/06/2020	Series 6	\$2.92	4,000,000	-	(900,000)	(3,100,000)	-	-
01/10/2017	01/10/2019	Series 7	\$4.50	2,250,000	-	-	(2,250,000)	-	-
01/10/2017	01/10/2020	Series 8	\$4.50	2,250,000	-	-	-	2,250,000	1,800,000
18/04/2019	30/11/2020	Series 9	\$5.75	2,850,000	-	-	-	2,850,000	-
23/03/2020	31/03/2020	Service rights	\$0.00	-	1,385,000	(1,385,000)	-	-	-
01/04/2020	30/04/2020	Service rights	\$0.00	-	160,000	(160,000)	-	-	-
				<u>11,911,666</u>	<u>1,545,000</u>	<u>(3,006,666)</u>	<u>(5,350,000)</u>	<u>5,100,000</u>	<u>1,800,000</u>
Weighted average exercise price				\$4.13	\$0.00	\$1.18	\$3.58	\$5.20	\$0.00

Note 37. Share-based payments (continued)

2019

Grant Date	Expiry Date	Series	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ Forfeited/ Lapsed	Balance at the end of the year	Vested and exercisable
01/01/2013	01/09/2019	Series 4	\$1.65	561,666	-	-	-	561,666	561,666
01/07/2015	30/06/2020	Series 6	\$2.92	4,000,000	-	-	-	4,000,000	2,400,000
01/10/2017	01/10/2019	Series 7	\$4.50	2,250,000	-	-	-	2,250,000	2,250,000
01/10/2017	01/10/2020	Series 8	\$4.50	2,250,000	-	-	-	2,250,000	1,800,000
18/04/2019	30/11/2020	Series 9	\$5.75	-	2,850,000	-	-	2,850,000	-
				<u>9,061,666</u>	<u>2,850,000</u>	<u>-</u>	<u>-</u>	<u>11,911,666</u>	<u>7,011,666</u>
Weighted average exercise price				\$3.63	\$5.75	\$0.00	\$0.00	\$4.13	\$0.00

The fair value at grant date of the options issued by the company which expired or remained outstanding during the year ended 30 June 2020 are shown below:

Grant date	Expiry date	Series	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/07/2013	01/09/2019	Series 4	\$1.80	\$1.65	5.00%	2.50%	5.00%	\$0.181
01/07/2015	30/06/2020	Series 6	\$2.94	\$2.92	50.00%	0.49%	2.25%	\$1.195
01/10/2017	01/10/2019	Series 7	\$4.04	\$4.50	37.57%	0.47%	2.03%	\$0.618
01/10/2017	01/10/2019	Series 7	\$4.04	\$4.50	37.57%	0.47%	2.03%	\$0.735
01/10/2017	01/10/2020	Series 8	\$4.04	\$4.50	37.57%	0.47%	2.12%	\$0.748
01/10/2017	01/10/2020	Series 8	\$4.04	\$4.50	37.57%	0.47%	2.12%	\$0.951
18/04/2019	30/11/2020	Series 9	\$5.18	\$5.75	37.01%	0.50%	1.50%	\$0.729

Expected volatility is based on historical share price volatility over the past two years. It is expected that options will be exercised only in the event of the market price exceeding the exercise price.

The options have been valued using an independent valuation from Crichton + Associates Pty Limited. Using this valuation the annual expense has been reflected in the Statement of profit or loss and comprehensive income.

In relation to service rights issued during the year, the fair value of such service rights was equal to that of the original share options which they replaced. Any minor difference in fair value was recorded in FY20 profit and loss.

**Significant accounting policies**

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date.

The fair value of options and service rights granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options and service rights granted:

- including any market performance conditions (eg. the entity's share price); and
- excluding the impact of any service and non-market performance vesting conditions (eg. profitability and remaining an employee of the entity over a specified time period).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

**Note 37. Share-based payments (continued)**

Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such shares are reversed effective from the date of the forfeiture.

**Note 38. Reconciliation of loss after income tax to net cash used in operating activities**

	Consolidated	
	2020 \$'000	2019 restated \$'000
Loss after income tax benefit for the year	(174,508)	(145,827)
Adjustments for:		
Depreciation and amortisation	30,627	18,119
Impairment of non-current assets	26,081	-
Financial derivative losses/(gains)	(999)	569
Gain on purchase	-	(2,062)
Impairment of financial assets	3,639	1,800
Share based payments	(418)	6,247
Deferred tax movement	(83)	(1,040)
Share of loss/(profit) of associates	(586)	254
Unrealised exchange loss	1,298	795
Gain from sale of assets	-	(96)
Movements in working capital:		
Decrease/(increase) in trade and other receivables	2,011	(19,475)
Decrease/(increase) in inventories	19,664	(12,746)
Decrease in loan due from other parties	-	1,182
Decrease/(increase) in other operating assets	374	(351)
Increase/(decrease) in trade and other payables	(82)	24,636
Decrease in provision for income tax	-	(4,893)
Increase in provision	134	464
Increase/(decrease) in other operating liabilities	(1,054)	(240)
Net cash used in operating activities	<u>(93,902)</u>	<u>(132,664)</u>

**Note 39. Reconciliation of assets and liabilities arising from investing and financing activities**

The table below details changes in the Group's assets and liabilities arising from investing and financing activities, including both cash and non-cash changes. Liabilities arising from investing and financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's statement of cash flows as cash flows from financing activities.

Movements in financing activities:

**Consolidated 2020**

	Balance		Non-cash changes			Balance 30 June 2020 \$'000
	30 June 2019 restated \$'000	Financing cash flows \$'000	DRP \$'000	Related income tax \$'000	Other non- cash \$'000	
AASB 16 lease liabilities (Note 18,21)	-	2,844	-	-	(197,489)	(194,645)
Term loan facilities (Note 20)	(92,350)	(48,824)	-	-	-	(141,174)
Recourse debtor financing facilities (Note 20)	(20,926)	5,460	-	-	-	(15,466)
Revolver financing facilities (Note 20)	-	(36,176)	-	-	-	(36,176)
Equipment financing facilities (Note 20)	(64,141)	(6,790)	-	-	(28,577)	(99,508)
Share capital (Note 27)	(589,123)	(3,303)	(6,211)	(75)	-	(598,712)
Dividends paid (Note 28)	-	2,659	6,211	-	-	8,870
	<u>(766,540)</u>	<u>(84,130)</u>	<u>-</u>	<u>(75)</u>	<u>(226,066)</u>	<u>(1,076,811)</u>

**Consolidated 2019**

	Balance		Non-cash changes			Balance 30 June 2019 restated \$'000
	30 June 2018 restated \$'000	Financing cash flows \$'000	DRP \$'000	Related income tax \$'000	Other non- cash \$'000	
Term loan facilities (Note 20)	(96,900)	4,550	-	-	-	(92,350)
Recourse debtor financing facilities (Note 20)	-	(20,926)	-	-	-	(20,926)
Equipment financing facilities (Note 20)	(37,291)	(26,850)	-	-	-	(64,141)
Share capital (Note 27)	(453,388)	(126,726)	(7,869)	(1,140)	-	(589,123)
Dividend paid (Note 28)	-	4,353	7,869	-	-	12,222
	<u>(587,579)</u>	<u>(165,599)</u>	<u>-</u>	<u>(1,140)</u>	<u>-</u>	<u>(754,318)</u>

Note 39. Reconciliation of assets and liabilities arising from investing and financing activities (continued)

Movements in investing activities:

Consolidated 2020	Balance 30 June 2019 restated \$'000	Investing cash flows \$'000	Non-cash changes			Non-cash changes		Balance 30 June 2020 \$'000
			Depreciation, amortisation and impairment \$'000	Equipment finance \$'000	Share of profits using equity method \$'000	Other non- cash changes \$'000		
Property, plant and equipment (Note 14)	270,745	22,809	(24,451)	28,577	-	695	298,375	
Right of use asset (Note 15)	-	-	(14,030)	-	-	186,334	172,304	
Intangibles (Note 16)	53,020	1,224	(17,491)	-	-	-	36,753	
Investment accounted for using the equity method (Note 13)	23,515	4,413	(735)	-	586	155	27,934	
	<u>347,280</u>	<u>28,446</u>	<u>(56,707)</u>	<u>28,577</u>	<u>586</u>	<u>187,184</u>	<u>535,366</u>	

Consolidated 2019 restated	Balance 30 June 2018 restated \$'000	Investing cash flows \$'000	Non-cash changes			Other non- cash changes \$'000	Balance 30 June 2019 restated \$'000
			Depreciation, amortisation and impairment \$'000	Acquisitions through business combination \$'000	Share of loss using equity method \$'000		
Property, plant and equipment (Note 14)	220,440	66,729	(17,465)	-	-	1,041	270,745
Intangibles (Note 16)	47,164	627	(654)	5,883	-	-	53,020
Investment accounted for using the equity method (Note 13)	16,941	6,535	-	-	(253)	292	23,515
Purchase of business	-	1,765	-	-	-	-	1,765
	<u>284,545</u>	<u>75,656</u>	<u>(18,119)</u>	<u>5,883</u>	<u>(253)</u>	<u>1,333</u>	<u>349,045</u>

**Note 40. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company:

	Consolidated	
	2020	2019
	\$	\$
Audit or review of financial reports:		
- Group	640,300	415,950
- Subsidiaries and joint operations	44,339	-
	684,639	415,950
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	10,000	10,000
Other services:		
Assistance with research and development claims	133,000	31,500
Tax compliance services	54,325	100,800
	187,325	132,300
	881,964	558,250

After year end the Group has paid \$171k relating to 30 June 20 that will be expensed in FY21. Additional fees in respect of the audit for the financial year ended 30 June 2020 are yet to be agreed.

**Note 41. Events after the reporting period**

**Bank facility amendments**

On 11 September 2020, the Group entered into a standstill agreement with its primary lenders, National Australia Bank Limited and HSBC Bank Australia Limited (Banks), pursuant to which the Banks have agreed until 29 January 2021, not to take any action against the Group in respect of any amounts owing to the Banks under the Group's financing agreements with the Banks, unless the Company commits a breach of the standstill agreement. Given that the standstill agreement is expiring in January 2021, it is considered appropriate to classify all borrowings as current.

Refer to Note 20 for further information on assets pledged as security and financing arrangements.

**Recall**

The Group conducted a recall in September 2020 of certain batches of plant-based beverages. The recall applied only to the specific batches. The issues that resulted in this recall have been fully resolved. The Company has insurance to cover the costs of the recall, subject to an excess of \$500,000.

**Note 41. Events after the reporting period (continued)**

**Blue Diamond Proceedings**

Legal proceedings have commenced in both Australia and the United States between Blue Diamond Growers (Blue Diamond) and certain Group subsidiaries including Freedom Foods Pty Ltd (FFPL). Further details can be found in the ASX release dated 30 September 2020.

Blue Diamond claim seeks:

- compensatory and general damages for breach of the Licence Agreement, which Blue Diamond asserts to be at least US\$16 million;
- compensatory and general damages for breach of an alleged oral agreement; and
- specific performance of the Licence Agreement.

The Group disputes Blue Diamond's claims and is defending its position. No contingent liabilities are recognised in the financial statements in respect of these proceedings.

Except as disclosed, no matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect, the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 32 to the financial statements.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



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Perry R. Gunner  
Chairman

30 November 2020  
Sydney

## Independent Auditor's Report to the Members of Freedom Foods Group Limited

### Report on the Audit of the Financial Report

#### Qualified Opinion

We have audited the financial report of Freedom Foods Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, except for the matters set out in the basis for qualified opinion section of our report, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

#### Basis for Qualified Opinion

As disclosed in note 3, the Group's 30 June 2019 comparative information and the 30 June 2018 consolidated statement of financial position have been restated. We have been unable to obtain sufficient appropriate audit evidence to determine whether the restatements to the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 30 June 2019 and related notes to the financial report are appropriate. As a result, no reliance should be placed on the above-mentioned comparative information.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

## Material Uncertainty Related to Going Concern

We draw attention to note 2 in the financial report, which indicates that the Group incurred a net loss after tax of \$174.5m during the year ended 30 June 2020 and had net cash outflows from operating activities of \$93.9m. At 30 June 2020, the total borrowings of the Group were \$292.3m which have been classified within current liabilities. As a result, the Group had net current liabilities of \$280.4m. The Group's financiers waived the obligation to comply with its banking covenants at 30 June 2020. The Group entered into a standstill agreement with its financiers in September 2020, and subsequent extensions thereto, which expire on 29 January 2021. Current forecasts project that the Group will need additional funding in January 2021 prior to the expiry of the standstill agreement to fund working capital. Further, the Group is in the advanced stages of a recapitalisation plan and has received a non-binding indicative offer to underwrite this fundraising.

These events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our procedures in relation to going concern included, but were not limited to:

- Reviewing management's assessment in relation to going concern and inquiring of management, directors, the Group's advisors and financiers in relation to events and conditions that may impact the assessment on the Group's ability to pay its debts as and when they fall due
- Challenging the assumptions contained in management's cash flow forecast for the period ending 31 December 2021, including the timing of expected cash flows, uncertainties arising due to operational and restructuring initiatives, proposed fundraising and refinancing activities being undertaken
- Reviewing the available year to date trading results and comparison to forecasts
- Obtaining from management, directors and the Group's advisors an understanding of the status of the proposed fundraising including the underwriting by a global investor, the draft terms and conditions and proposed timetable
- Considering the risks associated with the fundraising including the uncertainty caused by the legal dispute on the supplier arrangement with Blue Diamond Growers, assessment of the required regulatory approvals and other conditions required for completion within the proposed timetable
- Obtaining an understanding of the current status of the Group's financing facilities, including the extension to the standstill period to 29 January 2021, compliance and expected compliance, with undertakings during the standstill agreement period as well as review of the draft terms for continuing facilities after the fundraising
- Obtaining an understanding of the ongoing support from the Group's major shareholder or its related entities
- Assessing the impact of events occurring after balance date on the financial statements; and
- Assessing the adequacy of the disclosures related to going concern in note 2.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

## The Investigations

### Key Audit Matter description

As disclosed, during the year the Board identified matters regarding the operation and administration of the Group's equity incentive plan (EIP) and initiated an investigation. The implementation of the warehouse consolidation program led to the identification of issues in relation to inventory. The Board commissioned a further investigation in late June 2020 to take a broader look at the Group's financial position which was undertaken with the support of external advisors. Those investigations resulted in management, with the support of external advisors, undertaking further investigations and analysis ("the investigations").

As disclosed in note 3, a number of significant accounting errors have been identified, which have resulted in a reduction of the Group's previously reported net assets as at 30 June 2019 of \$436.2m. The matters set out below should be read in this context.

We obtained an understanding, assessed the design and tested the implementation of the relevant controls for each of the key audit matters below. As a result of significant control deficiencies, we determined that a wholly substantive approach was appropriate in our testing of the account balances set out below.

#### **a) Property, Plant and Equipment including Capital Work in Progress**

The investigations included the Group re-assessing the Property, Plant and Equipment (including capital work in progress ("CWIP")) in respect of costs previously capitalised during the commissioning phase of the Group's capital investment program. As a result, material amounts of costs capitalised were identified which did not meet the recognition criteria of AASB 116 Property, Plant and Equipment ("AASB 116"). This has resulted in the write off of costs capitalised in prior periods, as well as corrections to depreciation expensed on the amounts capitalised.

The determination of identifiable costs attributable to the construction of assets requires significant judgement. This includes evaluating:

- Whether internal labour costs were directly attributable to the construction of the Group's production and processing assets and can be accurately quantified
- Whether costs, including manufacturing variances, related to the commissioning phase of new production lines and processing facilities were directly attributable to the construction of the assets, and whether they could be accurately quantified; and
- The period in which to commence and cease capitalising directly attributable internal costs to CWIP.

### Audit Response

Our audit procedures included, amongst others:

- Testing, on a sample basis, management's re-evaluation of the costs capitalised, by tracing to supporting documentation and assessing whether the costs met the recognition and measurement criteria set out in AASB 116, and that they have been recognised in the financial period in which they arise
- Challenging the determination of the date at which the relevant assets were in the location and condition necessary to be capable of operating as intended, and capitalisation of costs ceased, including testing of commissioning dates, productivity levels, engineers' reports and final invoices received from equipment suppliers
- Challenging the adjustments that management have identified for costs previously capitalised post commissioning and evaluating that the write off of these costs have been recognised in the financial period in which they arise
- Challenging the re-assessment of the expected useful lives of property, plant and equipment; and
- Assessing the adequacy of the disclosures in notes 2, 3 and 14.

## b) Inventory

The investigations identified a number of issues regarding inventory. These issues impacted both the current year and prior periods and related to whether inventory was excess, out-of-date, unsaleable, obsolete or unable to be located, and the determination of the cost of inventory.

The investigations resulted in material adjustments to the quantities, the cost and the net realisable value ("NRV") of inventory. The determination of the quantum of these adjustments and the period in which they should be recognised, are subject to considerable judgements and estimates.

### Audit Response

Our audit procedures included, amongst others:

- Senior members of the audit team, including the engagement partner, attending and observing the 30 June 2020 inventory counts performed by management at the Group's major production facilities and warehouses given the material nature of the inventory issues identified
- Testing, on a sample basis, the existence of inventory at 30 June 2020, by tracing items recorded in the inventory system to their warehouse physical location or from the physical location to the inventory system
- For those inventories which could not be located in the warehouses, we made additional inquiries and confirmed that these inventories no longer existed
- Agreeing the stock sheets from the year-end inventory counts to the year-end inventory valuation reports
- Obtaining an understanding of, and assessing the Group's methodology for identifying and calculating impairment for inventory
- Using the results of our stocktake count samples, testing the appropriateness of the inventory categorisation in the inventory system
- Testing the 30 June 2020 inventory costings and the recalculated inventory costings as at 30 June 2019 including challenging whether the costings were appropriate and testing that the revised inventory costs had been correctly applied
- For inventory on hand at 30 June 2020 assessing whether it was recorded at the lower of cost and NRV by testing a sample of inventory items to the most recent sales price and or sales contracts, and for inventories close to expiration date challenging the basis of the assessment of the NRV of those inventories
- Evaluating whether the inventories on hand as at 30 June 2019 were recorded at the lower of cost and NRV by comparing the inventory cost at the relevant balance date to the sales price inclusive of costs to sell achieved in that period. For inventories close to expiration date challenging the basis of the Group's assessment of the NRV of those inventories
- Testing whether inventory write-downs identified have been appropriately recognised in the financial period in which they arose; and
- Assessing the adequacy of the disclosures in notes 3 and 11.

## c) Capitalisation of New Product Development Costs

The investigations included a review of the New Product Development (“NPD”) costs that had been capitalised. The investigations identified material amounts of internal salary costs as well as external marketing, research and sales costs capitalised which did not meet the recognition criteria of AASB 138 Intangible Assets (“AASB 138”). This has resulted in the write-off of the NPD costs that had been recognised as at 30 June 2019.

### Audit Response

Our audit procedures included, amongst others:

- Testing, on a sample basis, management’s re-evaluation of the NPD costs previously capitalised, by tracing to supporting documentation and assessing whether the costs met the recognition and measurement criteria set out in AASB 138
- For those costs that management determined had been incorrectly capitalised evaluating that management’s determination and resulting write-off of those costs was appropriate; and
- Assessing the adequacy of the disclosures in notes 3 and 16.

## d) Equity Incentive Plan

During the year ended 30 June 2020, the Board identified matters regarding the operation and administration of the Group’s equity incentive plan (EIP). The matters included the granting of previously undisclosed employee share options and/or extension of the expiry date of share options by management between September 2014 and September 2019. Certain of these employee share options granted and/or extensions were not authorised (“unauthorised employee share options”) by the Board.

As disclosed in note 3, the prior years have been restated in respect of the financial effect of the unauthorised employee share options.

### Audit Response

Our audit procedures included, amongst others:

- Understanding the process the Board undertook to investigate the issuance of the unauthorised employee share options. This included evaluating how they determined the completeness of share options issued to employees
- Reviewing correspondence in respect to the share options which had been issued to employees
- Holding discussions with the Group’s external legal advisors on the matter and the obligations arising from commitments made by management to employees in prior financial periods
- Interviewing a sample of employees to independently confirm the completeness, accuracy and the terms and conditions of the share options that had been issued to those employees, if any. Where share options had been issued to the employee we tested that those share options had been included in the calculations that formed the basis for the amounts recognised and disclosed in the financial statements in the relevant financial period, and if not that they were included in the restatement
- Evaluating the Group’s accounting treatment of the unauthorised employee share options
- Testing management’s calculation of the share-based payment expense arising in respect of the unauthorised employee share options; and
- Assessing the adequacy of the disclosures in notes 3 and 37.

## e) Correction of other prior year errors

As disclosed in note 3, as a result of the investigations, there were a number of material errors, other than those which have been referred to in a) to d) above, which have resulted in the restatements of prior periods. Given the nature and extent of these errors, including the number of account balances impacted, the identification, quantification and correction of prior year errors was an area of focus.

### Audit response

Our audit procedures included, amongst others:

- Obtaining an understanding of the outcome of the investigations
- Making inquiries of the Board and management on their response to their investigations
- Assessing the results of the investigations
- Consulting with our forensics specialists on the findings in the investigations and our response thereto
- Tailoring the nature and extent of our work on those account balances with increased risk of material misstatement
- Evaluating the errors identified to determine the financial period in which they arose; and
- Assessing the accounting treatment of the relevant items and the adequacy of the related disclosures.

Impairment of goodwill, intangible assets and tangible assets

### Key Audit Matter description

The Group's financial position resulting from losses arising from operational and financial matters complicates the Group's evaluation of the carrying amount of goodwill, intangible assets and tangible assets and any resulting impairment and as a result was a key audit matter.

The Group performed the impairment assessments required by AASB 136 Impairment of Assets and identified impairments of its tangible and intangible assets in the Cereals & Snacks, Specialty Seafood and Dairy & Nutritionals Cash Generating Units ("CGUs") resulting in an impairment of the carrying value of those assets.

As disclosed in notes 2 and 16 there are a number of key estimates and judgements in the determination of the recoverable amount of goodwill, intangible and tangible assets which require the application of significant judgement. These include:

- The 2021 fiscal year forecast
- Sales and gross margin growth rates
- Discount rates applied to the projected cash flows
- Royalty rates (used in the relief from royalty brand valuation models)
- Terminal growth rates; and
- Fair valuations of property, plant and equipment.

In addition, to the impairments that arose during the year ended 30 June 2020, the Group has determined that certain of the goodwill, intangible assets and tangible assets, should have been impaired in prior financial periods.

## How the scope of our audit responded to the key audit matter

Our audit procedures included but were not limited to:

- Obtaining an understanding of management's assumptions and judgements used in the impairment assessments
- Challenging the Group's identification of CGUs
- Evaluating the methodology, principles and integrity of the models used to determine the relevant recoverable amounts
- Challenging the 2021 fiscal year forecast by:
  - assessing the reasonableness of forecast sales based on individual product performance and customer demand, including the ability to renegotiate existing contract prices, and contracts secured for new products in the market
  - evaluating the forecast cost of production to determine whether the inputs included appropriate consideration of the cost structure in the business including the cost of production
- Assessing the reasonableness of the longer-term assumptions for sales and margin growth based on historical performance, the Group's three-year strategic plan, supply agreements, industry benchmarks and industry trading conditions
- Using valuation specialists in evaluating the reasonableness of other key inputs and assumptions in the models including:
  - the royalty rates used by comparison to the market data on similar brand's royalty rates
  - the discount rates used by assessing the Group's weighted average cost of capital; and
  - the appropriateness of terminal growth rates applied
- Performing sensitivity analysis on the key model inputs and assumptions
- Assessing the objectivity and competence of the external valuers appointed by the Group
- Using valuation specialists in evaluating the reasonableness of the external valuations obtained by the Group to support the carrying value of land, property, plant and equipment, where relevant
- Evaluating the assessment as to the financial period in which the impairments of tangible and intangible assets should be recognised; and
- Assessing the adequacy of the disclosures in notes 3, 14 and 16.

Management override of controls

### Key Audit Matter description

Australian Standards on Auditing 240 (ASA 240), The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements, highlights the risk of management override of controls as a presumed audit risk area. As a result of the findings from the investigations and the significant control deficiencies identified during our work there was an increased risk of management override of controls and therefore was a key audit matter.

## How the scope of our audit responded to the key audit matter

Our audit procedures included, amongst others:

- Obtaining an understanding of the financial reporting process and assessing the design and testing the implementation of the relevant controls therein in the context of the findings from the investigations. As a result of this work, we identified significant control deficiencies and determined that a substantive approach was appropriate
- Making inquiries of the Board on their assessment and response to the risk of management override of controls
- Refining the criteria used in our selection of journal entries processed during the current period for testing
- Extending the procedures performed on accounts receivable, related party transactions and unrecorded liabilities; and
- Reviewing accounting estimates and judgements for bias including the estimated useful life of property, plant and equipment, the date on which assets moved from CWIP to property, plant and equipment, inventory costings and net realisable value, the expected credit losses, lease liabilities, make good provisions and the treatment of tax losses.

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Due to the matters described in the Basis for Qualified Opinion section above except for references to the financial results for the year ended 30 June 2019 and earlier periods we have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### Report on Other Legal and Regulatory Requirements

Except for the impact of the matters referred to in the key audit matters section of this report, the Group has complied with the requirement of sections 296 and 297 of the Corporations Act 2001.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 42 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Freedom Foods Group Limited, for the year ended 30 June 2020, complies with section 300A of the Corporations Act 2001.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



David White  
Partner  
Chartered Accountants  
Sydney, 30 November 2020

The shareholder information set out below was applicable as at 23 November 2020.

### Corporate Governance Statement

The URL at which the Company's Corporate Governance Statement can be located is:  
<https://ffgl.com.au/our-business/corporate-governance/>

### Number of holders / Classes of equity securities

There are:

- 8,381 holders of ordinary shares; and
- 20 holders of convertible redeemable preference shares.

### Substantial holders

The substantial holders of the Company are:

Name	Number of ordinary shares	%
Arrovest Pty Limited	145,556,000	52.53%
HSBC Custody Nominees (Australia) Limited	26,966,651	9.73%
J P Morgan Nominees Australia Pty Limited	19,362,896	6.99%

### Distribution schedule

Ordinary shares

Range	Securities	%	Number of holders	%
100,001 and over	247,285,148	89.25%	74	0.88%
10,001 to 100,000	14,634,771	5.28%	626	7.47%
5,001 to 10,000	5,729,010	2.07%	780	9.31%
1,001 to 5,000	7,830,509	2.83%	3,166	37.78%
1 to 1,000	1,595,965	0.58%	3,735	44.57%
	<u>277,076,403</u>		<u>8,381</u>	

Convertible redeemable preference shares

Range	Securities	%	Number of holders	%
100,001 and over	-	-	-	-
10,001 to 100,000	70,102	69.32%	3	15.00%
5,001 to 10,000	8,000	7.91%	1	5.00%
1,001 to 5,000	19,090	18.88%	7	35.00%
1 to 1,000	3,938	3.89%	9	45.00%
	<u>101,130</u>		<u>20</u>	

### Unmarketable parcels

There are 903 shareholders holding an unmarketable parcel of the Company's ordinary shares.

## Escrow

The Company has the following securities on issue subject to escrow:

Number of escrow ordinary shares	Expiry date
32,916	6 November 2020

## Unquoted securities

The Company has the following unquoted securities:

Class of unquoted securities	Number
Convertible redeemable preference shares	101,130
Options	5,100,000

## 20 largest shareholders

The 20 largest shareholders of ordinary shares are as follows:

Name	Number held	% Issued Capital
1. Arrovest Pty Limited	145,556,000	52.53
2. HSBC Custody Nominees (Australia) Limited	26,900,840	9.71
3. J P Morgan Nominees Australia Limited	19,440,798	7.02
4. National Nominees Limited	8,335,823	3.02
5. UBS Nominees Pty Limited	7,735,968	2.79
6. Citicorp Nominees Pty Limited	5,283,204	1.91
7. Argo Investments Limited	4,225,897	1.53
8. BNP Paribas Nominees Pty Limited	4,130,645	1.49
9. Medich Capital Pty Limited	2,810,477	1.01
10. BPC Custody Pty Limited	1,566,374	0.57
11. HSBC Custody Nominees (Australia) Limited - A/C 2	1,556,544	0.56
12. CS Third Nominees Pty Limited	1,452,972	0.52
13. Netwealth Investments Limited	1,447,835	0.52
14. Mutual Trust Pty Limited	1,409,315	0.51
15. BNP Paribas Noms Pty Limited	1,032,438	0.37
16. Mr Perry Richard Gunner & Mrs Felicity Jane Gunner	800,493	0.29
17. Goldacre Investments Pty Limited	702,569	0.25
18. HSBC Custody Nominees (Australia) Limited	550,434	0.20
19. Custodial Services Limited	487,494	0.18
20. Mr Lawrence Lip & Mrs Sabina Lip	456,964	0.16
	<u>235,923,084</u>	<u>85.15</u>

The 20 largest holders of the convertible redeemable preference shares is as follow:

Name	Number	% Issued Capital
1. R & M Gugliotta Pty Limited	30,000	29.66%
2. Lewis Little River Pty Limited	23,438	23.18%
3. Mr Hugh Middendorp & Mr Peter Charles Nicholas Middendorp	16,664	16.48%
4. Alan Ong Enterprises Pty Limited	8,000	7.91%
5. Mrs Enid May Hartigan	5,000	4.94%
6. Mr Craig Sargent	3,394	3.36%
7. GWG Investments Pty Limited	3,125	3.09%
8. Lokit Investments Pty Limited	2,214	2.19%
9. Mr Robert William Russell	1,924	1.90%
10. Mr Robert David Napier Nicholls	1,736	1.72%
11. Palatine Holdings Pty Limited	1,697	1.68%
12. Mr Gerald Millman	1,000	0.99%
13. Mr Tjeerd Veenstra & Mrs Susan Lesley Veenstra	963	0.95%
14. Mrs Michelle Louise Farrell	640	0.63%
15. Mr Andrew Jonathon Achilles	500	0.49%
16. Mr Neville Thiele	273	0.27%
17. Mrs Dianne Joan Thiele	219	0.22%
18. Mr Andrew Macfarlane	200	0.20%
19. Mr Kim Wigram Jones	133	0.13%
20. Mrs Bronwyn Itchins	10	0.01%
	<u>101,130</u>	<u>100.00</u>

Directors	Perry R. Gunner - Chairman (Non-Executive) Rory J.F. Macleod - Managing Director and Chief Executive Officer (Executive) (until 29 June 2020) Anthony M. Perich - Deputy Chairman and Director (Non-Executive) Ronald Perich - Director (Non-Executive) Trevor J. Allen - Director (Non-Executive) Genevieve Gregor – Director (Non-Executive) (appointed 4 March 2020) Jane McKellar – Director (Non-Executive) (appointed 12 May 2020)
Alternate Director	Michael R. Perich (Alternate Director for Anthony M. Perich until 4 December 2019 and Ronald Perich until 6 August 2020) Timothy Bryan (Alternate for Anthony M. Perich - appointed 4 December 2019 and Ronald Perich appointed 6 August 2020)
Interim Company secretary	Scott Standen (appointed on 13 July 2020). Scott Standen will oversee an orderly transition to Justin Coss
Group General Counsel and Company Secretary	Justin Coss (appointed 23 November 2020)
Notice of annual general meeting	The details of the Annual General Meeting of Freedom Foods Group Limited are: 22 January 2021
Registered office	80 Box Road Taren Point NSW 2229 Tel: +61 2 9526 2555
Principal place of business	80 Box Road Taren Point NSW 2229 Tel: +61 2 9526 2555
Share register	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Tel: +61 2 8280 7111 Fax: +61 2 9287 0303
Auditor	Deloitte Touche Tohmatsu Grosvenor Place, 225 George Street Sydney NSW 2000 Tel: +61 2 9322 7000
Solicitors	Ashurst Level 11, 5 Martin Pl Sydney NSW 2000  Arnold Bloch Leibler Chifley Tower, Level 24, 2 Chifley Square Sydney NSW 2000
Bankers	HSBC Australia Limited Level 27, 100 Barangaroo Ave Sydney NSW 2000

National Australia Bank Limited  
Level 3, 255 George Street  
Sydney NSW 2000

Stock exchange listing

Freedom Foods Group Limited shares are listed on the Australian Securities Exchange (ASX code: FNP)

Website

[www.ffgl.com.au](http://www.ffgl.com.au)

ABN

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