BELLAMY'S AUSTRALIA LIMITED

ABN 37 124 272 108

ASX (Appendix 4D)

Interim Report

for the half-year ended 31 December 2017

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

BELLAMY'S AUSTRALIA LIMITED

Results for announcement to the market for the half-year ended 31 December 2017

(Previous corresponding reporting period: Half-year ended 31 December 2016)

Key Information

Key financial information	Half-year ended 31 December 2017 $'000	Half-year ended 31 December 2016 $'000	Period movement Up/(down) %
Revenue	174,910	118,297	47.9%
EBITDA	34,855	10,427	234.3%
EBIT	32,721	10,105	223.8%
Profit before income tax expense	32,739	10,070	225.1%
Income tax expense	(10,333)	(2,834)	264.6%
Net profit after income tax expense	22,406	7,236	209.6%

Dividends	Franked amount per security
Interim dividend (prior year)	$nil
Final dividend (prior year)	$nil

No dividend has been declared in respect of the current financial year.

Net tangible assets backing	Half-year ended 31 December 2017	Half-year ended 31 December 2016	Period movement up/(down)
Basic earnings per share (cents)	21.5	7.5	186.7%
Diluted earnings per share (cents)	20.4	7.2	183.3%
Net Assets	184,190	83,950	119.4%
Net tangible assets	149,180	81,949	82.0%
Net assets per share (cents)	162.5	86.8	87.2%
Net tangible assets per share (cents)	131.6	84.8	55.2%

Definitions
Net Tangible Assets = Total equity less goodwill and other intangible assets
Net Tangible Assets per share = Total equity less goodwill and other intangible assets/ shares on issue

Net tangible assets per share has increased over the period due to an increase in net profit after tax of $15.2m, compared to the half year ended 31 December 2016, and the capital raise which raised $66.7m through the issue of 12.9m additional shares. Over the period, Ordinary Shares on issue have increased by 16,629,579 to 113,316,104 (2016: 96,686,525).

Commentary on Results

Bellamy's continues to be a leading brand in the Australian and China markets. The previously announced turnaround program is on track and the health of the underlying business continues to strengthen. In particular, in this period we have returned to growth, increased marketing investment and reduced operating costs.

Our financial strength and balance sheet has also improved, including a reduction in inventory, an improved inventory ageing profile and over $85m held in cash and no debt. The earlier capital raise provided the funding necessary to restructure the supply chain and complete the Camperdown acquisition at a point in time when the business could not otherwise fund these strategic initiatives.

Although we recognise these positive early results, we remain mindful of the inherent risk of a dynamic and highly regulated market. Our focus is now on obtaining our CFDA license and executing a long-term growth plan.

Financial Performance

In respect of 1H18, the Company achieved Revenue of $174.9m (1H17: $118.3m), EBITDA of $34.9m (1H17: $10.4m) and NPAT of $22.4m (1H17: $7.2m). Revenue growth was predominantly volume driven and included a small contribution from the acquisition of the Camperdown Powder manufacturing business (**Camperdown**). There are no normalising adjustments in 1H18. The Bellamy's business excluding the impact of the Camperdown subsidiary is labelled "core business". Financial performance compares to a normalised 1H17 in the table below:

$m	1H18				1H17		
	Statutory Core Business	Statutory Camperdown	Significant Items (1)	Normalised Result (2) Group	Statutory	Significant items (1)	Normalised Result (2) Group
Revenue	170.0	4.9	-	174.9	118.3	-	118.3
Gross Profit	63.0	0.9	-	63.9	46.8	-	46.8
Overhead	26.7	2.3	-	29.0	36.4	8.6	27.8
EBITDA	36.3	(1.4)	-	34.9	10.4	8.6	19.0
D&A (3)	0.5	1.6	-	2.1	0.3	-	0.3
NPAT	25.2	(2.8)	-	22.4	7.2	6.0	13.2

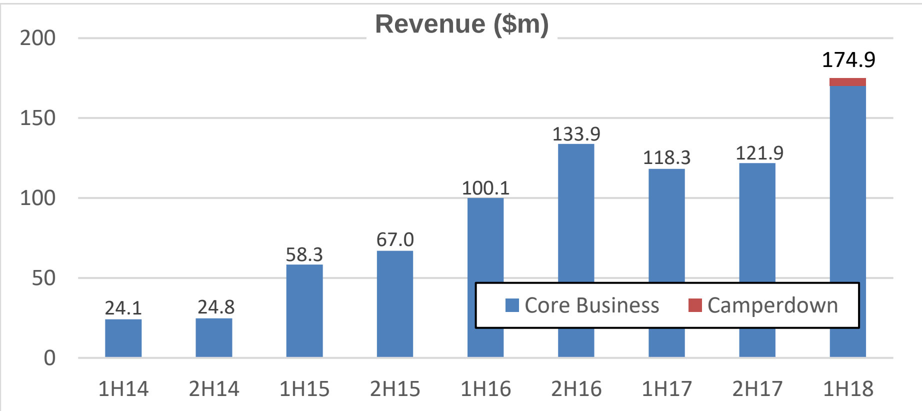
(1) Refer Note 4 for details of individually significant items in 1H17.

(2) Bellamy's has followed the guidance for underlying profit as issued by the ASIC regulator Guide RG230 'Disclosing non-IFRS information'. The profit and loss summary with a prior period comparison in the table above, has been sourced from the accounts but has not been subject to separate review or audit. The Directors believe that the presentation of the unaudited non-IFRS profit and loss summary in the table above is useful for users as 1H17 includes significant items that are not expected to be repeated in future years. The table reflects the normalised earnings of the business.

(3) Amortisation of the finite-life intangible assets arising from the acquisition and consolidation of Camperdown have been allocated to the Camperdown business for purposes of this analysis.

Revenue and Profitability

Bellamy's core business revenue grew 43.7% on 1H17. Growth was predominantly driven by volume and reflects a better balance between demand and supply, reduced channel conflict and improved marketing investment. Price realisation remains strong, with promotional discounts minimised in an effort to support the Brand and its premium.



Gross profit margin for the core business was 37.0%, down 2.5 percentage points on 1H17 and 0.3 percentage points above 2H17. This margin reflects higher ingredient costs associated with the ageing inventory that has now been cycled through the trade, as well as a $2.2m charge for shortfall payments. Improvements in margin are expected in 2H18 as the benefits of reduced unit costs of ingredients and production are realised.

Camperdown revenue was $4.9m and gross profit was $0.9m. Revenue was impacted by a 33 day CNCA license suspension in July 2017 and the interval times relating to a series of CFDA registration submissions. Profitability was also impacted by sub-scale production runs for commercial samples required for CFDA submission. We expect both revenue and profit to improve in 2H18.

Expenses

In 1H17, $8.6m of overhead costs where considered one-off in nature. There are no one-off costs in 1H18. To enable a more balanced analysis, this commentary refers to comparative costs on a normalised basis and for the core business excluding Camperdown.

Overhead for the core business decreased $1.1m (4.1%) on 1H17. As previously flagged, the majority of savings made in 2H17 were reinvested in marketing and capability in line with our long-term growth plan.

- Direct Costs including logistics and warehousing costs reduced $0.2m from 1H17 despite 43.7% increase in Revenue (and a similar volume increase). Direct Costs reduced to 4.4% of Revenue (1H17: 6.6%) as distribution logistics were restructured and streamlined, and inventory holdings declined.
- Marketing investment doubled from 2H17, and effectiveness improved considerably with a shift to direct brand investment from agency fees and retainers. Expenditure was in line with a target of 5% of prior year (FY17) Revenue. Given strong revenue growth this resulted in expenditure of 3.7% of 1H18 Revenue.
- Employee costs increased $0.2m from 1H17 as the investment in capability continues, with a particular focus on a renewed leadership team and China Sales and Marketing capability. At-risk Equity Remuneration, issued as part of the turnaround plan, contributed to the cost increase and is non-cash.
- In 1H18, Admin & Other costs increased compared to the normalised 2H17 result reflecting investment in systems and legal costs associated with a number of key contracts.

Total Overhead reduced from 23.6% of Revenue in 1H17 to 15.8% in 1H18.

Balance Sheet

Net debt at 30 June 2017 was $7.8m and increased to a cash balance of $85.0m (debt free) by 31 December 2017. The strong cash conversion resulted from the combined impact of a Net Profit After Tax of $22.4m, a reduction in inventory of $23.9m, and the net impact of the capital raise and other working capital improvements.

Inventory reduced from $93.5m to $69.6m. The level of finished goods represents approximately 2.7 months of sales. The level of inventory fluctuates monthly based on production and sales patterns, however a level of 4-5 months is considered a more reasonable level in the context of business growth. The inventory carrying value is stated net of a provision of $3.5m (30 June 2017: $5.5m). The reduction reflects raw ingredients that have been disposed of as anticipated. No finished goods have been written down other than for damage and/or other incidental reasons. There was no provision writeback in 1H18.

Acquisition Accounting

The cost to acquire Camperdown was $32.1m. Accounting standards allow up to 12 months to identify and value intangible assets and therefore determine net assets and goodwill. The preliminary valuation of net assets on acquisition is negative $2.7m. Finite life intangible assets have a preliminary value of $6.8m amortising over 3 years. Amortisation of $1.4m was expensed in 1H18.

Cash Flow

Net cash generated from operating activities was $59.1m. This was generated by $22.4m profit after tax, a $23.9m reduction in inventory and other favourable movements in working capital.

Manufacturing / Camperdown

Camperdown had one of its licences suspended in July 2017. It is normal practice to suspend CNCA licences while the authority reviews potential non-compliance. The licence suspension was lifted in August 2017 after compliance was re-affirmed. While the opportunity to make some minor upgrades to the facility were undertaken during this time, the event caused Camperdown to lose some orders from customers that would have enabled them to build inventory prior to the 1 January 2018 commencement of the CFDA regulations.

- Capital Expenditure

  The original expansion plans have been delayed to:

  - de-risk the CFDA application processes; and
  - provide opportunity to improve design, equipment selection and the level of automation.

  The capital expansion plans are expected to increase to $12-15m. It will take more than 12 months to implement due to equipment ordering timeframes and the need to sequence the upgrade into the production schedule.

  The facility has sufficient production capacity until the expansion is completed. Utilising this additional time will reduce the risks associated with the facility upgrade including design, accreditation and licencing.

- CFDA Registration

  A CFDA licence is required to sell Chinese labelled products from stores in China. The application for this licence has been submitted. The authority may take 6 months or more to consider the application.

- Conditional Acquisition of remaining 10% Shareholding

  Bellamy's will acquire the remaining 10% of Camperdown conditional on the success of our CFDA application. The transaction structure provides the vendors with continued financial exposure to the success of Bellamy's. The original ownership structure retained financial incentive for both former and new shareholders to collaborate through the ownership and licencing transition phase. This structure has proven successful, however post CFDA registration it is an appropriate time to consider ownership change. The change provides Bellamy's with greater flexibility to adapt and manage its manufacturing operations.

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

Outlook

For the Bellamy's core business, FY18 Revenue is expected to achieve between 30-35% growth on FY17 Revenue (FY17: $240m). FY18 EBITDA is expected to be 20-23% of Revenue.

In 1H18, Revenue included sales of Chinese labelled product totalling $18.1m. There are no sales of Chinese labelled product forecast in 2H18. It should be noted that Bellamy's distributor in China has several months inventory of Chinese labelled product within China. It is anticipated that this inventory is sufficient for the distributor to continue to sell Chinese labelled product until the licence application is considered by the CFDA.

The financial performance of Camperdown is expected to improve on the 1H18 EBITDA loss of $1.4m and we maintain our outlook of a $1-2M EBITDA loss for the full FY18 year.

Bellamy's has minimum annual volume (MAV) commitments with manufacturers and suppliers. The MAV in a number of these contracts change over time. This effectively reserves capacity for Bellamy's and is critical to both current production and future growth.

The aggregate MAV increases over time. This means Bellamy's must increase production volume to retain the same level of shortfall payments. The forecast assumes the continuation of the same level of MAV expense as 1H18. Production rebates, when targets are exceeded, are recorded as a reduction in the cost of finished goods.

Strategic focus

Bellamy's is focused on completing the final phase of the turnaround plan and establishing long term and sustainable growth platforms. Key investment themes are outlined in the investor presentation and broadly include:

- Trade partnerships and distribution
- Brand marketing and product development
- Strategic capability including supply chain

Bellamy's seeks to continue to grow shareholder value through measured and deliberate plans to improve product range and customer reach.

BELLAMY'S AUSTRALIA LIMITED

Consolidated interim report for the half-year ended 31 December 2017

CONTENTS

Consolidated interim report for the half-year ended 31 December 2017 5

Directors' Report 6

Auditor's Independence Declaration 7

Consolidated Statement of Profit or Loss and Other Comprehensive Income 8

Consolidated Balance Sheet 9

Consolidated Statement of Changes in Equity 10

Consolidated Statement of Cash Flows 11

Notes to the consolidated financial statements 12

Directors' Declaration 18

Independent Auditor's Review Report to the Members 19

Corporate Directory 21

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Bellamy's Australia Limited during the interim financial reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Directors' Report

Your directors present their report on the consolidated entity consisting of Bellamy's Australia Limited and the entities it controlled ("the Company" or "Bellamy's") at the end of, or during, the half-year ended 31 December 2017 as follows:

Directors

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

- John Ho (Chair)
- John Murphy (Deputy Chair)
- Wai-Chan Chan
- Rodd Peters
- Shirley Liew (appointed 13 December 2017)

Company overview

Bellamy's is an Australian producer, supplier and marketer of 100% organic baby food and formula. Headquartered in Tasmania, Bellamy's offers a range of organic food and formula products for babies and toddlers, starting with an organic infant formula suitable from birth.

Review of Operations

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

Rounding of amounts

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

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

John Ho

CHAIR

Melbourne, 22 February 2017

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the review of Bellamy's Australia Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Alison Tait
Partner
PricewaterhouseCoopers

Melbourne
21 February 2018

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2017

	Half-year 2017 $'000	Half-year 2016 $'000
Revenue	174,910	118,297
Cost of Sales	(111,054)	(71,536)
Gross Profit	63,856	46,761
Other income	122	186
Direct costs (distribution & other costs)	(7,890)	(14,620)
Employee costs	(7,873)	(6,959)
Employee share based benefits	(1,827)	(1,144)
Marketing and innovation costs	(6,354)	(7,922)
Administrative and other costs	(5,179)	(5,875)
Earnings before net interest, tax, depreciation and amortisation (EBITDA)	**34,855**	**10,427**
Depreciation and amortisation	(2,134)	(322)
Earnings before net interest and tax (EBIT)	**32,721**	**10,105**
Net interest revenue/(expense)	18	(35)
Profit before income tax	**32,739**	**10,070**
Income tax expense	(10,333)	(2,834)
Net profit for the half-year	**22,406**	**7,236**
Other comprehensive income (net of tax)		
Items that may be reclassified subsequently to profit and loss		
Exchange differences arising from translation of wholly owned foreign entities	365	(956)
Change in fair value of cash flow hedges	(29)	440
Total comprehensive income for the half-year	**22,742**	**6,720**
Total net profit attributable to:		
Non-controlling interest	(275)	-
Owners of Bellamy's Australia Limited	22,681	7,236
Net profit for the half-year	**22,406**	**7,236**
Total comprehensive income attributable to:		
Non-controlling interest	(275)	-
Owners of Bellamy's Australia Limited	23,017	6,720
Total comprehensive income for the half-year	**22,742**	**6,720**
Earnings per share		
Basic earnings per share (cents)	21.5	7.5
Diluted earnings per share (cents)	20.4	7.2

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

Consolidated Balance Sheet

As at 31 December 2017

	Note	31 December 2017 $'000	30 June 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		85,016	17,479
Trade and other receivables		45,213	37,057
Inventories	7	69,591	93,497
Current tax assets		1,814	274
Other assets		978	2,051
Total current assets		**202,612**	**150,358**
Non-current assets			
Property, plant & equipment		3,334	1,006
Intangible assets		35,010	1,740
Deferred tax assets (net)		4,298	3,537
Total non-current assets		**42,642**	**6,283**
Total assets		**245,254**	**156,641**
LIABILITIES			
Current liabilities			
Trade and other payables		60,477	37,726
Borrowings	10	28	25,264
Provisions		470	2,329
Derivatives		41	34
Total current liabilities		**61,016**	**65,353**
Non-current liabilities			
Provisions		48	29
Total non-current liabilities		**48**	**29**
Total liabilities		**61,064**	**65,382**
Net assets		**184,190**	**91,259**
EQUITY			
Issued capital		120,870	53,795
Reserves		9,086	5,635
Retained profits		54,234	31,829
Total equity		**184,190**	**91,259**
Minority interest		275	-
Total equity attributed to owners of Bellamy’s Australia Limited		**184,465**	**91,259**

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2017

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

	Note	Issued capital $'000	Foreign currency translation reserve $'000	Cash flow hedge reserve $'000	Share based payment reserve $'000	Retained earnings $'000	Non-Controlling Interest $'000	Total equity $'000
Balance at 1 July 2016		40,216	(373)	(565)	3,767	40,176	-	83,221
Profit for the half-year		-	-	-	-	7,236	-	7,236
Other comprehensive income		-	(956)	440	-	-	-	(516)
Total comprehensive income		-	(956)	440	-	7,236	-	6,720
Issue of shares		404	-	-	-	-	-	404
Dividends		-	-	-	-	(7,539)	-	(7,539)
Share based payments		-	-	-	1,144	-	-	1,144
Balance at 31 December 2016		40,620	(1,329)	(125)	4,911	39,873	-	83,950

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

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2017

	Note	Half-year 2017 $'000	Half-year 2016 $'000
Cash flows from operating activities			
Cash receipts from customers		166,862	102,489
Cash payments to suppliers and employees		(98,490)	(121,718)
Cash generated from operations		68,372	(19,229)
Interest received			80
Interest paid		(453)	(115)
Income taxes paid		(8,811)	(4,401)
Net cash inflow / (outflow) from operating activities		59,108	(23,665)
Cash flows from investing activities			
Proceeds sale property plant & equipment		47	16
Purchases of property plant & equipment		(806)	(238)
Proceeds on sale of investments		-	297
Purchase of controlling interest in subsidiary	11	(10,453)	(348)
Net cash outflow from investing activities		(11,212)	(273)
Cash flows from financing activities			
Proceeds from share issue		44,877	-
Proceeds/(repayment) of borrowings		(25,236)	14,453
Dividends paid to Company's shareholders		-	(7,136)
Net cash inflow / (outflow) from financing activities		19,641	7,317
Net increase / (decrease) in cash equivalents		67,537	(16,621)
Cash and cash equivalents at the beginning of the half-year		17,479	32,295
Effect of exchange rate changes on cash and cash equivalents		-	(42)
Cash and cash equivalents at end of the half-year		85,016	15,632

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

Notes to the consolidated financial statements

1. Significant Accounting Judgements and Estimates

Revenue forecast

The revenue forecast is based on a combination of historic trends, engagement with key customers, internal demand analysis and external market information. The forecast is dependent on estimates of demand in both the domestic market and sales to distributors/resellers into China and other markets

Net realisable value of inventory

The valuation of inventory is considered an area of judgement on the basis that the assessment of whether inventory is valued at lower of cost or net realisable value is based on the sales forecast. Should sales forecasts not be achieved inventory may not be sold within the expiry period.

Manufacturing contracts

The accounting for manufacturing contracts is based on estimates and judgements in relation to future production levels. Based on the current forecast the Company has assessed that the economic benefit of the manufacturing contracts exceeds the cost of the contracts (including anticipated shortfall payments) and therefore the contracts are not considered onerous. Further information with respect to production shortfall payments is included in Note 2.

2. Commitments and Contingent Liabilities

Shortfall payments

The Company has manufacturing arrangements with suppliers/manufacturers which run over a number of years. The key manufacturing contracts have minimum volume commitments to secure access to the necessary manufacturing facilities. These commitments change over time. Where the Company is not able to fulfil minimum volume commitments, it is required to make production shortfall payments.

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

In 1H18, the expense recognised in COGS for shortfall payments was $2.2m. In 2H18, if production levels remain consistent with 1H18 a similar expense may be incurred. Beyond FY18 shortfall payments and the related expense may continue over the term of the contracts and could increase or decrease depending on the level of production.

Bellamy’s also derives rebates on some contracts when contracted volume targets are exceeded. These rebates are reflected in the value of inventory at the time the inventory is received.

Contingent Liability

As announced by the Company on 23 February 2017, Slater & Gordon Limited has commenced a representative proceeding (shareholder class action) in the Federal Court of Australia against the Company. The statement of claim includes allegations of contraventions of the Corporations Act 2001 (Cth) in relation to misleading or deceptive conduct and continuous disclosure obligations. The proceeding is brought on behalf of persons who acquired Bellamy’s shares between 14 April 2016 and 12 December 2016. Bellamy’s intends to vigorously defend the proceeding. The Court documents do not quantify the damages that the claimants will seek in the proceeding for all or any part of the claim period. Bellamy’s does not consider that there is a reasonable basis on which to estimate any potential liability and no provision has been recognised in the financial statements.

In December 2017, Ms McBain commenced proceedings in the NSW Supreme Court in relation to the entitlements she received on termination of her employment. The Company’s position is that it paid the correct amount that it is legally required, and able, to pay Ms McBain without breaching the requirements of the Corporations Act in particular Part 2D.2 which sets a maximum cap for termination payments to senior executives.

3. Subsequent Events

On 15 January 2018 the Company announced the conditional acquisition of the remaining 10% of the Camperdown operations for total consideration of approximately $3.6m (based on the Bellamy’s share price on 15 January 2018). On completion, this acquisition will result in the Company beneficially owning 100% of the shares in Camperdown.

4. Significant Items

	Half-year 2017 $'000	Half-year 2016 $'000
Profit for the half-year includes the following items that are material due to the significance of their nature and/or amount:		
Included in operating expenses		
Inventory provisions and write-offs	-	6,838
Legal, accounting and restructuring	-	1,018
Ineffective foreign exchange hedges	-	727
	-	8,583

5. Operating Segments

Description of segments

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

Segment revenues are derived from the sale and distribution of organic branded formula and food products to babies and toddlers and manufacturing of formula and other powders. Management has determined that there are two operating 'sales' segments based on geographical location along with a Manufacturing segment. The operating segments have been redefined to add the manufacturing business and the China and Other/South East Asia operations have been combined. The three operating segments are as follows:

i) Australia Sales – revenues derived from sales to retailers and resellers within Australia

ii) Overseas Sales – revenue derived from sales to distributors and online customers overseas

iii) Australia Manufacturing – manufacturing of formula and other powders

Management primarily uses a measure of earnings before interest, tax, depreciation and amortisation (EBITDA) to assess the performance of the operating segments. Costs are mostly allocated based on revenue.

Total assets and liabilities are measured in a manner consistent with that in the financial statements. These assets are allocated based on the operations of the segment and physical location of the asset.

Segment financial information

31 December 2017	Australia Sales & Corporate $'000	Overseas Sales $'000	Australia Manufacturing $'000	Group Total $'000
Segment revenue from external customers	116,063	53,949	4,898	174,910
Underlying EBITDA	23,279	13,024	(1,448)	34,855
Segment EBITDA%	20%	24%	(30%)	20%
Total segment assets - 31 December 2017	106,345	8,934	7,727	123,006
Total segment liabilities - 31 December 2017	40,294	10,003	10,180	60,477
Other disclosures				
Depreciation & amortisation				2,134
Income Tax Expense/(Benefit)				10,333

31 December 2016	Australia Sales & Corporate $'000	Overseas Sales $'000	Australia Manufacturing $'000	Group Total $'000
Segment revenue from external customers	77,617	40,866	-	118,483
Underlying segment EBITDA[1]	15,607	3,403	-	19,010
Segment EBITDA%	20%	8%	-	16%
Total segment assets – 30 June 2017	123,158	12,193	-	135,351
Total segment liabilities – 30 June 2017	34,770	4,955	-	39,725
Other disclosures				
Depreciation & amortisation				322
Income Tax Expense/(Benefit)				2,834

1 In 2016 corporate costs were not reported in the segments, which have now been adjusted to allocate corporate costs.

Reconciliation of segment assets and liabilities

31 December 2017	Australia Sales & Corporate $'000	Overseas Sales $'000	Australia Manufacturing $'000	Group Total $'000
Segment assets	106,345	8,934	7,727	123,006
Unallocated:				
Cash and cash equivalents				85,016
Current tax assets				1,814
Intangibles arising on consolidation[1]				31,120
Deferred tax assets (net)				4,298
Total assets				245,254
Segment liabilities	40,294	10,003	10,180	60,477
Unallocated:				
Provisions (employee benefits)				518
Borrowings				28
Derivatives				41
Current tax liabilities				-
Total liabilities				61,064

30 June 2017	Australia Sales $'000	Overseas Sales $'000	Australia Manufacturing $'000	Group Total $'000
Segment assets	123,158	12,193	-	135,351
Unallocated:				
Cash and cash equivalents				17,479
Current tax assets				274
Intangibles arising on consolidation				-
Deferred tax assets (net)				3,537
Total assets				156,641
Segment liabilities	34,770	4,955	-	39,725
Unallocated:				
Provisions (employee benefits)				358
Borrowings				25,264
Derivatives				34
Current tax liabilities				-
Total liabilities				65,382

1 Intangible assets relating to customer contracts in the current year are allocated to the segment. Goodwill remains in unallocated corporate assets.

6. Income Tax

The effective tax rate calculated for the half year to 31 December 2017 is 31.5% of Company profit before tax, compared to 28.1% for the six months ended 31 December 2016. Excluding the tax incentive recognised in respect of the 2016 Research & Development claim, the effective tax rate would be 29.6% for the period.

7. Inventory

	Dec 2017 $000	Jun 2017 $000
Raw Materials	8,935	10,483
Finished Goods	46,878	83,014
Goods in Transit	13,778	-
Inventories	69,591	93,497

Inventories are valued at the lower of cost and net realisable value. Value is stated net of a provision for inventory obsolescence of $3.5m (1H17: $5.9m).

8. Issued capital

	31 December		31 December	
	2017 Shares	2016 Shares	2017 $000	2016 $000
Opening balance at 1 July	99,679,345	96,656,397	53,795	40,216
Issue of ordinary shares during the half-year:	12,928,292	-	66,709	-
Employee option plan – options exercised	708,467	-	366	-
Dividend Reinvestment Plan	-	30,128	-	404
Closing balance at 31 December	113,316,104	96,686,525	120,870	40,620

On 3 July 2017 the acquisition of a 90% interest in Camperdown was completed, at which time the issuing of 3,190,042 shares to Isa Sun Pty Ltd as Trustee for the Huddy Horizon Trust (representing the remaining consideration in connection with the acquisition) was committed. The share price at this date was $6.78. These shares were later issued 11 October 2017 following completion of conditions subsequent. Placement details set are out in the Prospectus dated 13 June 2017.

On 6 July 2017, 9,738,250 shares were issued on completion of the Retail Entitlement Offer made to eligible retail shareholders in accordance with the Prospectus dated 13 June 2017.

On 2 October 2017, 50,000 options were granted to new senior management under the Bellamy's Australia Limited employee option plan. These options have a vesting date of 31 August 2019 (Tranche 1) and 31 August 2020 (Tranche 2).

At the Annual General Meeting On 26 October 2017, shareholders approved the grant of 265,887 options to Directors. The terms of the grant are set out in the Prospectus dated 13 June 2017.

As at 31 December 2017, Directors, executives and employees held options over 5,808,431 (2016: 3,650,408) ordinary shares of the Company.

9. Dividends

	Half-year	
	2017 $'000	2016 $'000
Ordinary Shares		
Dividends paid during the half-year[1]	-	7,539

1 On 2 September 2016, a fully franked final dividend of 7.8c per share was paid in respect of the year ended 30 June 2016.

No dividends have been declared in respect of the half-year ended 31 December 2017.

10. Borrowings

	Half-year	
	Dec 2017 $'000	June 2017 $'000
Current		
Secured		
Trade financing	28	25,259
Asset purchase liabilities	-	5
Total secured borrowings	28	25,264
Unsecured		
Asset purchase liabilities	-	-
Total unsecured borrowings	-	-
Total borrowings	28	25,264

Funding Note

HSBC provides a working capital facility to the Company in an aggregate amount of $40 million, together with a credit card facility of $250,000 and a bank guarantee facility of $200,000 (together, the "facilities"). The working capital facility is comprised of a number of sub-facilities with specific conditions and limits, with the effect that the Company's ability to utilise the working capital facility is subject to those conditions being satisfied and those limits not being exceeded. The facilities are secured over assets of the Company and are subject to the Company complying with its obligations (including financial covenants) under those facilities. At 31 December 2017, the aggregate amount outstanding under the facilities was $28,000 in respect to the credit card facility and $nil in respect to other facilities. The balance of the facility remains available for use by the Company

11. Business Combinations

AASB3 Business Combinations allows up to 12 months for the valuation of asset and liabilities of an acquired business. This includes the identification and valuation of intangible assets. The following information is considered preliminary.

On 3 July 2017, the Company acquired 90% of A.C.N. 610 661 611 Pty Ltd, the 100% owner of Camperdown Powder Pty Ltd

Consideration	**$'000**
Cash consideration	10,500
Issue of shares	21,612
	32,112

	Preliminary fair value $'000
Purchase	
Assets and Liabilities acquired	
Cash	47
Property plant and equipment	1,854
Inventory	1,154
Trade and other receivables	567
Other current assets	57
Trade and other payables	(5,583)
Deferred tax	(753)
Provisions	(61)
Net Assets acquired	**(2,718)**
Goodwill and intangible assets	34,830
Purchase consideration	32,112

The preliminary valuation of finite life intangible assets includes a valuation of customer contracts and operating licences is $6.8m. This balance is expected to be amortised over 3 years.

If the CFDA application was unsuccessful, this would trigger a review of the carrying value.

12. Related party transactions

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

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

13. Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Bellamy's Australia Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below. The half-year financial statements have been prepared on the basis of accounting policies consistent with those applied in the 30 June 2017 annual report, with the exception that described in Note 5 (Operating Segments).

New accounting standards and interpretations

The following new accounting standards and interpretations were released from1 July 2016

i) 2010 - 2014 Annual Improvements Cycle (AASB 2015-1)
ii) AASB 15 Revenue from contracts with customers
iii) AASB 16 Leases

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 Revenue which covers revenue arising from the sale of goods and the rendering of services and AASB 111 Construction Contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for the first interim period within annual reporting periods beginning on, or after 1 January 2018, and will allow early adoption.

Management is currently assessing the effects of applying the new standard on the Company's financial statements however it is not expected to have a significant impact on the results of the Company.

Under AASB 16 Leases the distinction between operating and finance leases is removed for lessees.

The income statement will be affected as operating lease expenses will be replaced by interest and depreciation, and the timing of expenses will also change, typically higher in the earlier years of a lease and lower in later years.

Key ratios and metrics are likely to be affected as EBITDA will increase and recognising new lease assets and liabilities will significantly affect balance sheet ratios such as leverage.

Lease term and lease payment are defined more broadly under AASB 16 than under the previous standard.

The standard provides more guidance on the inclusion of extension options in the lease term and the treatment of variable lease payments for clauses including CPI increases and turnover-based rent. The removal of 'off-balance sheet' operating leases brings into focus the distinction between a lease and a service arrangement, which is not accounted for on balance sheet.

The new guidance focuses on the principle of control and whether a lessee has the right to control the use of an identified asset during the lease term; it may give a different classification to the previous standard, which focused on risk and rewards. The group does not expect to adopt the new standard before 1 July 2019.

Directors' Declaration

In the Directors' opinion:

a) The financial statements and notes set out on pages 9 to 19 are in accordance with the Corporations Act 2001, including:

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

   II. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date and

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

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

John Ho

CHAIR

Melbourne, 22 February 2018

Independent Auditor's Review Report to the Members

pwc

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bellamy's Australia Limited (the company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Bellamy's Australia Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bellamy's Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Alison Tait

Alison Tait
Partner

Melbourne
21 February 2018

Corporate Directory

Bellamy's Australia Limited
ABN 37 124 272 108
ASX Code BAL

Directors

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

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Company Secretary

Melinda Harrison

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External auditor

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