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SELECT HARVESTS

1H18 HALF YEAR RESULTS

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Overview of 1H18 Half Year Financial Results

- **Reported 1H18 NPAT of A$6.3 million, which compares to 1H17 NPAT of A$11.6 million.**
- **Excluding adjustments relating to prior year crops due to variation in estimates of yield and price of the 2016 and 2017 crops, the normalised 1H18 NPAT of $7.1M compares to 1H17 of $8.5M – detailed below.**
- **2018 almond crop estimate of 15,000 MT (compared to final 2017 crop of 14,100 MT) and an almond price estimate of A$7.75/kg (compared to final 2017 achieved price of A$7.43/kg).**
- **Net Debt (including finance lease liabilities) is A$56.4 million and Gearing (Net Debt/Equity including finance lease liabilities) at 31 December 2017 is 15.3%.**
- **Strong balance sheet following successful capital raising**
- **1H18 Interim Dividend (Fully Franked) 5 cps.**

Comparative Normalisation Adjustments	1H18 $M	1H17 $M
Group		
Reported EBIT	**12.1**	**17.9**
Adjustments for 2017 Crop - Volume & Price[1]	1.1	(9.6)
Adjustments for 2016 Crop - Volume & Price[2]	-	5.1
Normalised EBIT	13.2	13.4
Divisions		
Normalised Almond Division EBIT	12.6	11.1
Food Division EBIT	3.2	5.1
Corporate Costs	(2.6)	(2.8)
Normalised EBIT	13.2	13.4
Reported NPAT	**6.3**	**11.6**
Tax Effected Impact of above adjustments	0.8	(3.2)
Normalised NPAT	7.1	8.5

Note 1 – in 1H17 a crop estimate of 16,000 MT at a price of $7.70/kg was recognised. Adjusted actual result, was a crop of 14,100 MT at a price of $7.43/kg.

Note 2 – Differential in the estimated 2016 crop selling price adjusted in the 1H17 accounts

Refer Appendix for Definitions of Normalised NPAT, Normalised EBIT and Normalised EPS

Select Harvests announces results for the 6 months ended 31 December 2017 (1H18) with a Reported Net Profit after Tax (NPAT) of A$6.3 million.

The 31 December 2016 Reported Results exclude significant adjustments made in the 2nd half of FY17 relating to both almond crop size and price/kg. **After taking into account these prior period adjustments, SHV delivered a Normalised 1H18 EBIT of $13.2 million against an 1H17 EBIT of $13.4 million.**

Consistent with the requirements of Accounting Standard AASB 141 Agriculture, the crop has been valued at estimated fair value less costs to sell. Based on the maturity profile of current orchards and industry standard yields, a crop of 15,800 MT should be expected.

Harvest has only just commenced and at this early stage it is difficult to accurately forecast the crop size and quality. This includes the potential impact of frost events in some of our orchards previously disclosed. As a result, we have applied a 5% discount to the industry standard yields to arrive at a crop volume of 15,000MT.

To date we have currently harvested approximately 15% of our portfolio - young trees of the non-pareil variety. Early harvest indications show that the crop quality is good and there is potential for the 15,000 MT crop estimate to be exceeded.

The fundamentals of demand remain extremely strong with the Almond Board of California January Position Report showing year to date shipments up 10% and uncommitted inventory down 12%. We are forecasting an almond price for the crop of A$7.60-8.20/kg and today's market is currently trading in excess of A$8.00/kg. We have valued the crop based on an average almond price of A$7.75/kg at an AUD/USD exchange rate of 0.77. These pricing estimates will be tested in the coming weeks as the industry and market comes to understand the impact of the recent significant frost events in California (the biggest almond producing region in the world).

The Food Division has faced a number of challenges in the domestic market in the last six months, including the expansion of house brands (impacting SHV's market share) and the increasingly competitive domestic sector. The export market remains buoyant with significant opportunities in both North and South-East Asia. Opportunities to grow exist in consumer branded categories plus further growth in the industrial/commercial sectors. We anticipate our export business growth to accelerate, albeit from a small base.

We have had zero environmental incidents. Lost Time Injury Frequency Rate (LTIFR) and Medically Treated Injury Frequency Rate (MTIFR) have both reduced in excess of 25% year on year and Lost Time Injury Severity Rates (LTISR) are down 50%. It is pleasing to see such positive results in our OHS performance.

Business Outlook

Select Harvests remains confident in our business fundamentals. We are anticipating a significantly improved 2H18 performance driven by the:

- potential benefit of improved almond yield, quality and pricing
- benefit of lower interest costs as a result of our improved debt position
- improved performance from the Parboil value-adding investment
- commissioning of the H2E cogen plant in April
- increasing sales in the Food Division export markets
- and finally, further realization of cost saving initiatives expected to deliver more than $6 million in annual savings

The Directors have declared an interim dividend (fully franked) of 5 cents per share (1H17 interim dividend 10cps fully franked), payable on 5 April 2018 and with a Record Date of 8 March 2018.

Almond Division

Demand for almonds in the global market continues to remain strong. The shipment of US almonds is up 6% in the last twelve months, 10% this almond season (August onwards) and 23% in the last 3 months. Due to its lower market pricing almonds remain an attractive nut option compared to alternatives. Both US exports and domestic sales remain strong due to the attractive pricing and positive findings from continued research into the health benefits arising from the consumption of almonds. The current strong demand is expected to continue as manufacturers increase and expand the use of almonds and more consumers integrate almonds in their diets.

SHV's strategy continues to focus on expanding its base by investing in greenfield development, improving yields and productivity on existing farms, improving quality and controlling costs across the entire business. Another core part of our strategy is to add further value to almonds and other commodities by marketing branded and value-added products, reducing our exposure to the raw commodity pricing.

1H18 Reported EBIT of A$11.5 million compares to A$15.6 million in 1H17. The reported results include adjustments relating to prior year crop and price as previously recorded estimates are adjusted to reflect final positions. **After taking into account these prior period adjustments, the Almond Division delivered Underlying 1H18 EBIT of $12.6 million against 1H17 EBIT of $11.1 million.**

Our 2018 crop is estimated to be 15,000 MT, assuming normal harvesting conditions prevail. This compares to 14,100 MT achieved in 2017; an increase of approximately 6%. The year on year increase is a result of the acquisition of Jubilee Orchards in 2H17, underlying improvement in yields and the maturing profile of our Greenfield orchards.

Almond farming and processing has a significant proportion of fixed costs. The impact of the lower crop estimate has led to SHV's cost per tonne produced to be higher than 1H17. This has been partially offset by a significant reduction in variable orchard related costs. There have been some costs such as energy, crop protection and pollination which have continued to increase year on year. These increases and the current underperformance of the Parboil facility have also led to a reduction in 1H18 EBIT. There will be an increasing focus on processing costs as we hull, shell and grade the 2018 crop.

The 2018 crop harvest commenced 2 weeks ago and is progressing well. Weather conditions have remained favourable during the harvest period and are forecast to remain positive. Initial harvest activity was on immature trees (fruit progresses faster due to increased access to light) and has now progressed to mature trees in South Australia and Victoria (non-pareil variety only). Early indications are that quality and yield levels are positive.

We currently have sales commitments for 2018 crop at an average price of A$7.83/kg (AUD/USD exchange rate of 0.77). These sales are not representative across the entire crop grade.

Food Division

Revenues of A$69.3 million in 1H18, compared to A$78.0 million in the corresponding period last year, a decrease of 11%. EBIT was A$3.2 million, compared to A$5.1 million last year.

Lower revenues and EBIT were primarily due to the decrease in market share of the Lucky branded cooking nut range with Coles launching an expanded own-brand offer. Additionally, revenues and earnings relating to contract packing have declined as a result of the high price of cashews, causing a significant reduction in volume. We have been able to partially offset the impact of these revenue declines and have strategies in place to protect the Lucky Brand in particular.

Growth in the Sunsol product range is strong with domestic and international sales growing in excess of 40% year on year. We forecast the demand for Sunsol product in both domestic and export markets will continue to increase.

We have terminated our relationship with Sinotrans International Supply Chain Co. Ltd. ("Sinotrans"). We are in the final stage of discussions with major distribution partners to deepen our presence in the China and wider Asian market. Partnering with large local distributors remains the Company's strategy to supply a wider range of branded products into these developing markets. Current volume forecasts are attractive and offer a major growth avenue for the Food business. Export related sales are 65% higher than the previous corresponding period.

The Industrial Business continued to experience strong demand from distributors, processors, food manufacturers and confectionery manufacturers. The new value-added Parboil facility allows SHV to meet the demand, quality, innovation and service requirements of this growing customer base.

Carina West Processing Major Project Update

As previously announced there are two major investments at our Carina West Processing Facility in Northern Victoria that will transform the site into a world class operation.

The electricity cogeneration plant (Project H2E) is designed to utilise processing by-products and orchard waste to provide low-cost energy to our processing and orchard operations. This project is behind its initial schedule. The plant is expected to be fully operational in April 2018 providing an efficient energy source in an environment of increasing energy costs. Despite the delayed delivery and increased cost of completion this project remains an attractive investment, given the increasing energy costs and risks of supply outages in regional Australia.

The new value-added almond processing plant (Project Parboil) is designed to convert raw and lower grade almonds, into a full range of value-added products (including packed, paste, blanched, sliced, meal) for use by industrial and retail customers. This project has had a number of configuration and operational issues leading to outputs being below that of the assumed business case. Operational changes (through improved production planning) and configuration adjustments have recently been made significantly improving production efficiencies. These efficiencies are expected to deliver improved financial performances in 2H18.

Orchards

The greenfield almond orchard developments plant out of 844 ha (2,084 acres) in FY17 funded via a lease agreement with First State Super (FSS) have been implemented to plan.

The Company planted a further 352 ha (870 acres) across three existing and new sites in July 2017, also funded by FSS. **SHV now owns or leases 7,487 ha (18,500 acres) of planted almond orchards.**

A further 202 ha (500 acres) will be planted in July 2018, in partnership with FSS.

Following the plant out of existing greenfield developments, Select Harvests will have a geographically diversified almond orchard portfolio comprising approximately 7,689 ha (19,000 acres) planted across the three major Australian almond growing regions.
SHV currently have no immediate plans for further new developments, but will continue with our replanting program and plan to replant 589 ha (1,455 acres) over the next five years.

Management Focus

Key focus areas for management for the remainder of FY18 that are expected to deliver improved results for 2H18 include:

- Cost Reductions & Process Improvement: Comprehensive review completed on orchard related costs (the biggest segment of SHV's operating costs) delivering a 9% cost per acre reduction. A detailed review of processing costs is underway, with targeted reductions impacting processing of the 2018 crop. Actions are in place to reduce corporate costs.
- Improved Operational Functionality: Parboil processing asset is currently operating below assumed levels. Changes in componentry and operational/production planning are expected to deliver ongoing benefits.
- Quality Uplift: Focus on lifting quality through harvesting practices and processing functions. A lift in product quality will lead to improved pricing.
- Higher Yield: Changes have been made to horticultural & harvesting practices. These changes are designed to improve yield volume, the level (& quality) of pick-up & reduction in the level of product remaining on trees. This is particularly important when you take into account the significant volume growth from greenfield orchards.

The 2H18 realisation of these initiatives is expected to deliver an improved result compared to 1H18.

Balance Sheet, Net Debt and Cash Flow

Following the successful capital raising in 1H18 the balance sheet is strong. The focus now is to ensure operating cash flows allow sustainable investment in capital expenditure including the increased immature orchard profile and associated infrastructure development.

Net debt (including finance lease obligations of A$39.0 million) at 31 December 2017 is A$56.4 million and gearing (Net Debt/Equity) is 15.3%. This includes the impact of A$10.9 million in capital expenditure (Projects H2E, Project Parboil, ERP system and farm equipment) and new orchard development costs of A$3.7 million (tree replants and on-balance sheet Greenfield plantings) in the last six months.

Operating cash flows of A$13.0 million were generated from the business in 1H18. Cash and working capital management are a key focus area for SHV moving forward. Significant opportunities to improve operating cashflow exists around further reduction in operating costs and improved levels of inventory management.

Managing Director Comment

Select Harvests' Managing Director Paul Thompson said:

"Our 1H18 Reported EBIT is A$12.1m vs A$17.9m last year. On a normalized basis, after allowing for the significant adjustments made to the 2016 and 2017 crop volume and price estimates, EBIT is flat year on year. 1H18 Normalized EBIT is $13.2m vs $13.4m last year.

Our result is extremely sensitive to both crop size and price estimates – every 200 additional MT delivers A$1.5 million EBIT and every A$0.10/kg movement in the almond price delivers A$1.4 million EBIT.

Early harvest indications show that the crop quality is good and there is potential for the 15,000 MT crop estimate to be exceeded.

California is 80% of the almond industry and as a result of extremely strong demand is carrying 12.5% less inventory than the same time last year. We have estimated an almond price of A$7.75/kg at an AUD/USD exchange rate of 0.77. This pricing estimate will be tested in the coming weeks as the industry and market comes to understand the impact significant frost events in California last week. Simple supply and demand fundamentals suggest there will be upward pressure on prices.

As the last couple of years have reinforced, we operate in a volatile commodity market and to prosper we need to thrive in all part of the almond price cycle. To this end, we have undertaken a comprehensive analysis of our business and have identified $6 million of cost savings that will be delivered this year.

The Food Division has faced a number of challenges in the domestic market. Opportunities to grow exist in consumer branded categories plus further growth in the industrial/commercial sectors. We anticipate our export business growth to accelerate, albeit from a small base.

The medium and long-term fundamentals of our industry and business are strong. Both the domestic and global market remain extremely positive with underlying consumption of our product being by consumers long to plant based protein inclusions in their diets. This trend is supported by an ever-increasing level of medical research.

Select Harvests profit and cash generation will rapidly improve as our immature orchards mature, strategic projects such as the Parboil value-add facility and H2E cogeneration project come on stream, cost reduction initiatives are delivered and our investment in value-added branded products in the industrial and consumer export markets ramp up".

ENDS

FOR FURTHER INFORMATION, PLEASE CONTACT:

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BACKGROUND:

Select Harvests Ltd (ASX:SHV) is an ASX listed, fully integrated almond business consisting of orchards (company owned, leased, joint venture and managed), primary processing (hulling & shelling), secondary processing (blanching, roasting, slicing, dicing, meal), trading (industrial products) and consumer products (Private Label & Brands - Lucky, Sunsol, Soland, NuVitality, Renshaw & Allinga Farms). Select Harvests also import a full range of nuts (in addition to almonds) for inclusion in their Consumer Products range of nut products. Australia is a significant global almond producer and Select Harvests are one of Australia's largest almond companies, supplying almonds domestically and internationally, to supermarkets, health food shops, industrial segments and the almond trade. The company is headquartered at Thomastown on the outskirts of Melbourne, Australia while its orchards are located in North West Victoria, Southern New South Wales and South Australia. Its primary processing facility (Carina West) is located at Wemen in North West Victoria and the secondary processing facility is located at Thomastown.

Half Year Results – Key Financial Data

$000's	1H FY2017	1H FY2018	%	1H FY2017 Normalised	1H FY2018 Normalised	%
Revenues	**126,457**	**112,946**	**(11%)**	**122,339**	**112,946**	**(8%)**
EBITDA	**25,058**	**20,103**	**(20%)**	**20,589**	**21,175**	**3%**
Depreciation	7,169	7,954	11%	7,169	7,954	11%
EBIT						
Almond Division	15,605	11,532	(26%)	11,136	12,604	13%
Food Division	5,054	3,175	(37%)	5,054	3,175	(37%)
Corporate	(2,770)	(2,558)	8%	(2,770)	(2,558)	8%
Total EBIT	**17,889**	**12,149**	**(32%)**	**13,420**	**13,221**	**(1%)**
Interest Expense	(2,221)	(3,167)	(43%)	(2,221)	(3,167)	(43%)
Profit Before Tax	**15,668**	**8,982**	**(43%)**	**11,199**	**10,054**	**(10%)**
Tax expense	(4,043)	(2,694)	33%	(2,702)	(3,016)	(12%)
NPAT Reported	**11,625**	**6,288**	**(46%)**	**8,496**	**7,038**	**(17%)**
EPS	**15.9**	**8.1**	**(49%)**	**11.6**	**9.1**	**(22%)**
Net Debt (exc. lease liabilities)	**58,453**	**17,354**		**58,453**	**17,354**	
Net Debt (inc. lease liabilities)	**98,440**	**56,393**		**98,440**	**56,393**	
Gearing (exc. lease liabilities)	**20.5%**	**4.7%**		**21.3%**	**4.7%**	
Gearing (inc. lease liabilities)	**34.6%**	**15.3%**		**35.9%**	**15.2%**	

Note: It should be reiterated that, as is always the case at the time the Company develops the crop value estimate, there is the potential for changes to occur both in yield outcomes, as the harvest progresses and the pricing environment, driven by almond market or currency shifts.

Definitions:
Normalised Earnings Before Interest and Tax ("EBIT") is a non-International Financial Reporting Standards ("IFRS") measure calculated by adjusting Profit Before Income Tax for interest expense and any adjustments relating to prior year crops.
Normalised Net Profit After Tax ("NPAT") is a non-IFRS measure calculated by adjusting Profit Attributable to Members of Select Harvests Ltd for any adjustments relating to prior year crops.
Normalised Earnings Per Share ("EPS") is a non-IFRS measure calculated by adjusting EPS for any adjustments relating to prior year crops.
Non-IFRS measures used by the company are relevant because they are consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.