THE WORLD'S MOST LOVED SALMON

26 February 2016

HUON AQUACULTURE GROUP LIMITED (ASX: HUO)
Announcement

Media Release Update

Huon Aquaculture Group Limited advises that there was a minor error in the media release issued today regarding its Interim Financial Results for the Half Year Ended December 2015.
On page three of the release under "Capital Management" the correct wording should have been:

"The Board has determined that, as a result of the need to balance the Company's growth program with its capital structure, earnings will be retained and no dividend will be payable for the half ended 31 December 2015."

Thank you

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Media Release

Issued: 26 February 24, 2016

ACCELERATED HARVEST PROGRAM IMPACTS FIRST HALF PROFITABILITY

Huon Aquaculture Group Limited (ASX:HUO) implemented an accelerated harvest program in the first half as a conservative risk mitigation response to the challenges of a forecast severe El Nino. This program, announced at the Company's Annual General Meeting in November 2015, impacted profitability with Operating EBITDA[1] at $15.8 million compared with $26.9m on the previous comparable period (pcp) and a statutory loss (NPAT) of $1.3 million compared with a statutory profit (NPAT) of $25.9 million (pcp). This compares favourably to the Operating EBITDA[1] of $13.6 million for the half year ended 30 June 2015 and statutory loss (NPAT) of $9.3 million for the same period.

SUMMARY OF BUSINESS PERFORMANCE FOR 1H2016

- Strong sales revenue of $131.1 million as a result of accelerated harvest strategy.
- Reduction in Operating EBITDA[1] to $15.9 million due to channeling of increased production into lower margin export markets.
- Temporary change in channel mix with exports increasing to 35% of total sales revenue (7% pcp).
- Return to strong operating cash-flow performance, up 13% on pcp to $17.2 million.
- Decrease in Fair Value Adjustment of Biological Assets as a consequence of reduced stock levels and a market valuation that incorporates the shift toward the lower priced export market.
- Strong balance sheet with conservative gearing ratio of 19.7%.
- Final phase in implementation of the Controlled Growth Strategy, incurring additional costs as business transitions to new production platform.
- Significant improvement in safety performance.

FINANCIAL SUMMARY

Six Months Ending		31 Dec 2015	30 Jun 2015	31 Dec 2014	% Change Dec on Dec
Tonnage	t	12,288	8,686	7,850	57%
Revenue^	$M	131.1	93.1	98.6	33%
Revenue per kg	$	10.67	10.72	12.56	-15%
Statutory EBITDA	$M	8.2	(7.9)	43.1	-81%
Operating EBITDA[1]	$M	15.8	13.6	26.9	-41%
Statutory NPAT	$M	(1.3)	(9.3)	25.9	-105%
Operating NPAT*	$M	4.0	5.7	14.6	-73%
Fair value adjustment	$M	(7.6)	(21.5)	16.2	-147%
Biological Assets	$M	135.5	151.8	158.6	-15%
Earnings Per Share	c	(1.5)	(11.8)	36.5	-104%
Operating Cash Flow Per Share	c	19.7	2.3	17.5	13%
Total Gearing Ratio**	%	19.1%	13.3%	-4.7%	

^ Revenue from the sale of goods
* Operating NPAT is Statutory NPAT excluding the impact of Fair Value Adjustment of Biological Assets
**Total Gearing Ratio is measured as debt (net of cash)/net assets

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[1] EBITDA is a non-IFRS financial measure which is used to measure business performance, using net depreciation and amortisation recognised in the income statement. Operating EBITDA excludes the impact of the Fair Value Adjustment of Biological Assets.

RESULTS COMMENTARY

During the half Huon executed an accelerated harvest program, a risk mitigation strategy developed earlier in the year in response to forecasts of a severe El Nino during 2015-16. As a result the Group achieved record revenue and sales volumes during the half, with sales revenue increasing 33% on pcp to $131.1 million.

Sales volumes increased by 57% as the tonnage of whole fish sold rose from 7,850 to 12,288 tonnes. The increased production of fish resulted from Huon's response to competitive pressures in the domestic market from imports in FY2014. A favourable growing season, combined with the success of the new Fortress pens, produced high quality, healthy fish which resulted in an overall increase in both the number and average size of fish.

"Record harvest volumes and sales are indicators of the underlying quality of our biological assets and continued healthy markets for our products," Huon Managing Director and CEO Peter Bender said.

The accelerated harvest program was however also accompanied by increased costs and reduced margins as the majority of the additional stock harvested was sold into the export market at the same time as Huon was undertaking planned expenditure on the final stage of the Controlled Growth Strategy (CGS).

The uplift in sales and revenue together with close management of working capital also delivered strong operating cash flow, exceeding that generated for FY2015.

"Given our risk mitigation strategy and record volumes we needed to export more of these fish to Asia and the Pacific, which reduced our overall sales margins," Mr Bender said.

Mr Bender said the reduction in earnings was disappointing, but noted a number of the factors were one-offs. More importantly it reflects Huon's focus on placing the management of environmental and agricultural risk at the forefront of its strategic decision making.

"Increased costs and lower margins due to a shift in our sales channel mix to exports impacted earnings in the half," Mr Bender said. "However, we expect both these factors to improve as the benefits of the CGS increasingly boost the efficiency of our aquaculture operations and as market pricing improves amid an expected tightening of global supply."

RISK MANAGEMENT

Safety and environmental performance are critical to sustainable improvements in earnings. Huon's lost time injury frequency rate continued to improve during the half from 20.0 to 8.0 prior comparable period, with the new Fortress pens creating a safer working environment, as well as delivering environmental dividends through reduced interactions with wildlife.

In December 2015 Huon acknowledged that it had exceeded its dissolved nitrogen input limits as a result of additional feed inputs into the Huon River. Huon has approached the management of this issue responsibly and it was the result of a range of factors including unprecedented salmon growth rates attributed to the success of the Controlled Growth Strategy and specifically the new fortress pens. In addition, unforeseen delays in changes to leases and the move to off-shore farming in Storm Bay had also played a role.

Huon will be fully compliant for the calendar year of 2016 in all growing regions. Access to the Huon's reconfigured off-shore lease sites in Storm Bay ensures that a similar incident will not occur.

As expected, the hot summer is putting Macquarie Harbour under additional stress with oxygen levels in the water falling. Huon has responded by reducing feed and installing oxygenating systems to limit the impact of the degrading environment on its fish. Macquarie Harbour accounts for 15% of Huon's production and with future growth designated for its offshore pens in Storm Bay, this percentage will diminish over time.

STRATEGY

Huon's $200 million Controlled Growth Strategy (CGS) is a key pillar of its overall development strategy and the anticipated full completion this year is expected to support long term growth in production, increased operational efficiency and higher quality product. The CGS is proceeding as planned in terms of both time frame and budget.

CAPITAL MANAGEMENT

The Board has determined that, as a result of the need to balance the Company's growth program with its capital structure, earnings will be retained and no dividend will be payable for the half ended 31 December 2015.

OUTLOOK

Industry analysts are forecasting an improvement in salmon pricing in both the international and domestic market for salmon in calendar 2016 with reduced global supply and continuing growth in global and domestic demand. This will set the stage for pricing to improve with the two major producers, Norway and Chile, not expected to deliver additional supply to market after 4 years of significant expansion. Imports into Australia are expected to drop sharply and domestic pricing improve.

Despite a good early growing season, environmental conditions have become challenging since December due to hotter temperatures in all growing regions combined with reduced dissolved oxygen in Macquarie Harbour. As a result, fish growth has slowed across all growing regions and most notably in Macquarie Harbour. The reduced growth rates are therefore expected to impact production volumes and fish cost in future periods.

While the accelerated harvest is expected to deliver more balanced earnings (Operating EBITDA) in the second half, the challenging operating environment experienced in the first half will continue to influence trading for the remainder of the financial year. This environmental uncertainty tempers our outlook and as a result the Directors currently expect that the Group's Operating EBITDA for 2H2016 will be less than the Operating EBITDA of $13.6M reported in the prior comparable period (2H2015).

The Group's full year FY2016 Operating EBITDA is therefore expected to be down on FY2015.

Mr Bender emphasised that a strong awareness and understanding of risk would continue to be a hallmark of Huon's business, in terms of its operations, sales and expansion initiatives. "By retaining the focus on risk management, Huon will seek to ensure it remains in a strong position to continue to grow safely and sustainably."

ENDS

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