



Media Release

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ON TRACK FOR PROFIT RECOVERY IN FY2017

Huon Aquaculture Group Limited's (ASX: HUO) results for the year to June 30 2016 were affected in the first half by the accelerated harvest and a temporary shift to higher export sales. In the second half poor growing conditions prevailed due to an extreme El Niño and feed performance issues.

Huon's performance improved in the final quarter, supported by the recovery in global salmon prices and a shift in Huon's channel mix away from the lower margin export market. This, together with the benefits yet to accrue from completion of the Controlled Growth Strategy (CGS), underpin a more positive outlook for the medium term.

SUMMARY OF BUSINESS PERFORMANCE FOR FY2016

- Significant uplift in harvest tonnage and sales revenue due to the accelerated harvest strategy
- Impact of higher exports at a time of depressed pricing, combined with poor growing conditions in second half, reflected in a reduction in Operating EBITDA to \$26.5 million
- Exports in FY2016 accounted for 25% of revenue, a level not expected to be continued
- Operating cash flow down 6% due to a combination of lower average prices, higher farm and raw materials costs and increased freight charges
- Decrease in Fair Value Adjustment of Biological Assets by \$1.5 million as a result of reduced stock levels but offset by a market valuation that reflects the improved pricing environment and channel mix
- Strong balance sheet with comfortable gearing level of 25%
- Significant improvement in safety performance
- CGS completed on time and on budget

FINANCIAL SUMMARY

Year ended 30 June		FY2016	FY2015	FY2014	% Change FY15 to FY16
Tonnage	t	20,463	16,536	15,156	24%
Revenue [^]	\$M	233.7	191.7	188.4	22%
Revenue per kg	\$	11.42	11.59	12.43	-1%
EBITDA [*]	\$M	24.9	35.2	59.2	-29%
Operating EBITDA ^{**}	\$M	26.5	40.5	54.7	-35%
NPAT	\$M	3.4	16.6	33.8	-79%
Operating NPAT	\$M	4.5	20.3	30.7	-78%
Fair value Adjustment	\$M	(1.5)	(5.3)	4.5	71%
Biological Assets	\$M	147.2	151.8	122.8	-3%
Earnings Per Share	c	3.92	20.99	55.41	-81%
Operating Cash Flow Per Share	c	18.69	19.82	70.26	-6%
Total Gearing Ratio ^{***}	%	24.8%	13.3%	58.7%	85%

[^] Revenue from the sale of goods

^{*} EBITDA is earnings before interest, tax, depreciation and amortisation

^{**} Operating EBITDA is Statutory EBITDA excluding the impact of Fair Value Adjustment of Biological Assets

^{***} Total Gearing Ratio is measured as debt (net of cash)/net assets

RESULTS COMMENTARY

Full year performance was heavily influenced by actions taken in the first half in response to a severe El Niño, including the accelerated harvest and change in channel sales mix between domestic and export sales. The increased weighting of sales towards exports coincided with Norway, the world's largest producer of salmon, significantly increasing its harvest in response to ongoing problems with sea lice.

Huon's accelerated harvest program delivered record revenue and sales volumes for the full year. Sales revenue increased 22% on pcp to \$233.7 million and volumes of whole fish sold rose from 15,156 to 20,463 tonnes.

Harvest performance across the year, however, was mixed. A favourable growing season in FY2015, combined with the success of the new Fortress pens, supported the growth of the 2014 Year Class fish which were harvested in the first half, resulting in an overall increase in both the number and average size of fish.

The accelerated harvest program was, however, accompanied by increased freight and processing costs and reduced margins as the additional stock harvested was sold into a lower priced export market. The proportion of fish sold into this market peaked at 35% during the first half.

Revenue in the second half was higher than the previous corresponding half as salmon prices rose in response to a shortage of supply from major growing regions. This helped offset the impact of a decline in Huon's production volumes in the second half due to the poor growing conditions. The average harvest fish weight fell 22% from 5.14kg in the first half to 4.00kg.

Operating cashflow for FY2016 was \$16.32 million, part of which was used to fund the completion of the CGS. Cash flows were tightly managed in the second half as growing conditions increased farm and raw materials costs.

The decline in the fair value adjustment of Huon's biological assets reflected lower stock levels due to the accelerated harvest and poor growing conditions in the second half. This was offset by a higher market valuation due to the improved pricing environment and channel mix, increasing the average sale price.

Huon managing director Peter Bender said that the two biggest impacts on the result were the poor growing conditions in the second half and the timing of increased sales into the export market.

"While we do not like to report a reduction in full year earnings, the actions we have taken in response to some very challenging operational issues over the past year are an important part of our strategy to build a resilient and sustainable business " Mr Bender said.

"The El Niño was one of the most severe recorded in Australia and we took a prudent decision to minimise the impact to our business. At the same time we completed implementation of the \$200 million Controlled Growth Strategy, which will substantially mitigate environmental and other risks into the future."

CONTROLLED GROWTH STRATEGY

Completion of the CGS, on time and on budget, has been the most significant operational and strategic achievement in Huon's history.

The CGS makes Huon a stronger, more sustainable business by boosting Huon's operations, efficiency and risk management at each stage of the production process, from the production of smolt (juvenile salmon) to the delivery of the freshest retail product to our customers. The first fish to be raised with the full benefit of the CGS will be harvested in FY2018.

During FY2016, the rollout of the new Fortress pens and mooring systems was completed, as was the Forest Home Hatchery and the deployment of the new high tech feed barges.

The pens enable Huon to utilise higher energy offshore sites, which are designed to improve the growth rates and quality of salmon and lessen the environmental and community impact of Huon's farming operations.

PEOPLE AND SAFETY

Safety and environmental performance are vital to sustainable improvements in earnings. Huon achieved a 74% reduction in its Lost Time Injury Frequency Rate (LTIFR) in FY2016, from 27 to 7. The new Fortress pens, in particular, create a safer working environment for our people and the "Safety First" culture at Huon makes safety the top priority at all our sites.

RISK MANAGEMENT

In FY2016 the Company pursued a number of successful risk mitigation strategies. The main focus was on reducing the risk from the forecast El Niño, particularly in the Macquarie Harbour region. Macquarie Harbour now accounts for less than 15% of Huon's salmon production and this will decrease further as we focus all our efforts in building up our higher energy leases offshore in the southern region. The Fortress Pen rollout, completed in the first half of FY2016, enabled stocking densities to be reduced at all sites, giving the fish a better environment in which to grow. The pens also significantly lessened wildlife interactions, thereby reducing a major contributor to mortality risk.

CAPITAL MANAGEMENT

The challenging operating environment experienced over the past year, combined with our commitment to complete the final stage of implementation of the CGS, has required increased focus on retaining cash within the business. As a result the Board has determined not to declare a dividend for FY2016.

OUTLOOK

The domestic market is now in a much better position than it was twelve months ago. Imports into Australia decreased significantly during FY2016 as local producers expanded supply, aided by a weaker Australian dollar and supply constraints in offshore markets. Demand for salmon from Australian consumers is expected to continue growing at about 10% per annum.

Huon's new supply agreements in retail will double Huon's presence in the retail market in FY2017 and we see further opportunities to expand our volumes in this sector. Our capacity to supply this growth segment of the market is supported by Huon's state of the art processing facility at Parramatta Creek and our new Sydney facility.

The recent rise in international and domestic salmon prices, together with the completion of the CGS, will underpin Huon's recovery and increase its profitability in the short to medium term. The effects of the difficult growing conditions experienced in the second half of FY2016 will nonetheless continue to affect the business in FY2017 in the form of lower average fish weights. We are therefore anticipating that volumes from the harvest in FY2017 will be broadly in line with FY2016.

We are confident, however, that Operating EBITDA will return to levels comparable to those recorded in FY2015, resulting in a strong turnaround in profitability in FY2017. The full impact of the CGS investment in the form of substantially improved operating efficiencies will deliver further growth in FY2018.

ENDS

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