



THE WORLD'S MOST LOVED SALMON

30 November 2017

**HUON AQUACULTURE GROUP LIMITED (ASX: HUO)**  
**Announcement**

**2017 Annual General Meeting**

Attached are copies of the Chairman's Address and Chief Executive Officer's Review of Operations to be presented at today's Annual General Meeting, Thursday 30 November 2017, Henry Jones Art Hotel, 25 Hunter St, Hobart commencing at 10.30am.

Yours faithfully,

Thomas Haselgrove  
Company Secretary

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**CHAIRMAN'S ADDRESS**  
**HUON AQUACULTURE GROUP LIMITED ANNUAL GENERAL MEETING**  
**10.30 am, Wednesday 30 November 2017**  
**Henry Jones Art Hotel**  
**25 Hunter St, Hobart**

**The Year in Review**

I will now move to my report for the year ended 30 June 2017.

In our third year as a listed company Huon Aquaculture achieved record revenue and earnings. Our financial performance improved substantially over the prior year, as the Company's operations benefited from a return to more normal growing conditions and the completion of the Controlled Growth Strategy - or CGS - that was fully implemented in FY2016.

The CGS continues to substantially mitigate our environmental and other business risks and has introduced long-term and sustainable efficiency gains.

As domestic demand for salmon continues to grow at around 10% per annum and with sustainable margins and stable market conditions, Huon is well-placed to record further earnings growth in the current financial year and in FY2019.

While we continually improve our salmon farming operations we remain constantly aware of the need to maintain broad social acceptance, especially in relation to environmental issues. To that end, a key goal of the CGS was to reduce our environmental impact by enabling us to expand our operations in high energy sites offshore and through investment in new hatcheries, seal-proof offshore Fortress Pens, feed barges and mooring systems.

I should mention Macquarie Harbour in western Tasmania, where we have continued to farm conservatively and reduce the environmental impact of our salmon farming activities. Huon will continue to play its part in preserving that important, largely landlocked, water resource for future generations.

Going forward, we will maintain our focus on Huon's core competency of salmon farming, continue to invest in value-accretive and industry-leading technical and market innovation, and leverage our core competency to investigate new business opportunities.

**FY17 Results**

Let me now provide an overview of Huon's FY2017 business performance. It was a turnaround year for the company.

While harvest tonnages were slightly lower in FY2017 than in FY2016 (due to the accelerated harvest in that year), revenues rose by a healthy 11% as a result of improved pricing in the domestic market, assisted by continuing tightness in global salmon supply.

We also benefited from a particularly good growing season which, combined with strong growth in market demand, delivered significant margin improvement, resulting in a major increase in Operating EBITDA to \$62.8 million, 138% higher than in FY2016.

I am pleased to report that Huon's FY2017 statutory net profit of \$42.2 million was substantially higher than the unsatisfactory FY2016 net profit figure of \$3.4 million, which was severely affected by that year's early harvest due to adverse growing conditions, poor feed performance and weak international pricing during the period we were selling our production into the export market.

Cash flow from operations increased during the year to \$54.0 million (compared with \$16.3 million in the prior year), delivering a strong cash balance of \$23.0 million at year end.

The Board believes that the earnings volatility that has affected our business in recent years is now behind us, although Huon, in common with all aquaculture businesses, is subject to the impact of local and international growing conditions.

We expect that the combined effect of continued stable pricing, strong performance from the 2016 Year Class and productivity gains being delivered from the CGS will underpin further growth in profit in FY2018.

### **Capital Management**

Turning now to capital management, the Board was pleased to be able to declare an inaugural dividend of 5 cents per share for FY2017, franked at 50 per cent. The dividend was paid on 12<sup>th</sup> October.

In considering the payment of our first dividend, Directors took into account the significant turnaround in Huon's earnings in FY2017 and the ongoing capital needs of the business.

It is the Board's intention to maintain an annual dividend payout ratio of up to 35 per cent of Operating NPAT, subject to the financing and capital expenditure requirements of the Company.

It is worth emphasising that Huon's ability to pay dividends will depend on a number of external factors, such as climatic conditions and animal husbandry matters that are beyond the Company's control.

Importantly the Company's balance sheet was in particularly good shape as we started the new financial year, with our gearing ratio sitting at a conservative 14.7 per cent.

### **People and Safety**

Before outlining Huon's current and future business strategy I want to say a few words about employee safety. I am pleased to report that the widespread understanding and adoption of the Company's 'Safety First' policies led to continued improvement in our Lost Time Injury Frequency Rate in FY2017 - from 7 in FY2016 to 3 last year.

While the ideal LTIFR target number is, of course, zero, the marked reduction in the rate, in the space of just a year, is very pleasing and testifies to our employees' real commitment to the implementation of our 'Safety First' programs.

## **Strategy**

Ladies and gentlemen, Huon has ambitious growth objectives and we have developed a sound business strategy designed to deliver them.

Our over-arching business strategy is clear. We intend to:

- Grow the market through increased consumption, better channel mix, enhancement of sales and brand value and innovative species diversification
- Build production and enhance operational efficiency as a result of CGS investment and marine lease optimisation
- Safely and sustainably grow our business through the development of our people and continuing operational improvement within a strong safety culture

While the wholesale market remains our most important channel it was pleasing that in FY2017 the proportion of our salmon production sold into the Australian retail market grew to 22 per cent from less than 10 per cent in FY2016. Delivering a more balanced channel mix has been a strategic objective for some time and while we effectively exited the export market in FY2017 due to shortage of supply, during the next two years we intend to increase our export activity as we consolidate some new and longer-term relationships in the Asian marketplace.

The expansion in production that is required to meet the steadily growing local and international demand for Huon's products will occur at our Storm Bay offshore sites. This will be supported by another initiative, recently approved by the Tasmanian EPA, the development of Huon's land-based salmon nursery at Whale Point (Port Huon). This is expected to create 200 jobs during construction and a further 30 ongoing full-time positions across the business, including 10 at the new facility. The continued growth of the Tasmanian salmon industry will require Huon to push forward with its capital plans to ensure we remain at the forefront of our industry in terms of technological innovation, production efficiency and environmental responsibility.

As is appropriate, we seek and obtain Aquaculture Stewardship Council accreditation for all of our production sites.

At an industry level, Huon will continue to do all it can to ensure there is a sustainable Tasmanian salmon industry. To that end, we are participating in the Global Salmon Conference, hosted by IMAS, in Hobart during December and have given our support, along with a detailed submission, to the Tasmanian Government's Sustainable Industry Growth Plan for the Salmon Industry.

That concludes my address today, ladies and gentlemen, and I will now ask our Managing Director, Peter Bender, to present his review of operations and some comments on the outlook for the year ahead.

Thank you.

**CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS**  
**HUON AQUACULTURE GROUP LIMITED ANNUAL GENERAL MEETING**  
**10.30 am, Thursday 30 November 2017**  
**Henry Jones Art Hotel**  
**25 Hunter St, Hobart**

Thank you Neil and good morning everyone.

Let me add my welcome to the Chairman's and thank you for attending today's AGM.

Huon Aquaculture's third year as a listed company has been our most successful. Our focus on strong fish growth and delivering our strategic objectives has generated a step change in performance compared to the previous year.

The successful completion of the 3-year Controlled Growth Strategy (CGS), in 2016, combined with better growing conditions and improved salmon pricing underpinned strong and sustainable growth in FY2017. Further operational and financial benefits of the \$200 million investment in the CGS will flow through in FY2018 and continue into subsequent years.

Huon Aquaculture will continue to invest in and leverage the latest technology to support our capacity to increase production and improve efficiencies over the next 5 years, particularly in our offshore locations. Our decision to take the lead in developing offshore farming is now demonstrating to be the right strategy to generate sustainable growth as well as ensuring that our operations do not harm the environment.

#### **FY17 Operational Overview**

In FY 2017 Huon Aquaculture delivered its strongest profit and revenues on record, as noted in the Chairman's address. The statutory net profit after tax of \$42.2 million represents a significant turnaround from the previous year's reported NPAT of \$3.4 million.

This operational performance is the result of continued stable pricing in the domestic market supported by the uplift in international pricing, as some of the major salmon producing regions dealt with sea lice and other biological issues.

Operating EBITDA increased by 138%, again a function of stronger prices and improved margins compared to the previous two years.

The accelerated harvest in FY2016 resulted in tonnages being slightly down this year while average fish weight improved significantly as a result of improved diets and ideal growing conditions. The value of Huon's biomass at year end increased by \$40.8 million, including a fair value uplift of \$19.2 million, to a record level of \$188.0 million

New sales agreements resulted in 22% of production being directed into the retail market, compared to 10% in prior years, providing a better balance to Huon's sales channel mix and greater certainty in planning future production.

During the first half of 2017 operating costs continued to be impacted by the feed quality issues on the 2015 Year Class fish, however, the strong performance of the 2016 Year Class in the second half

has driven a more than 12% reduction in the cost of production which is expected to continue in FY2018.

## **Risk management**

Huon's growth and continuing prosperity is built on actively managing the risks inherent in aquaculture, managing environments sustainably and maintaining a broad social acceptance of its operations. We have developed an effective engagement program, with a wide range of stakeholders, communicating the social and environmental benefits of Huon's operations accruing from the implementation of our Controlled Growth Strategy. We are committed to maintaining this deep level of engagement with stakeholders, particularly in light of the ongoing concerns over industry practices.

The completion of the CGS in FY2016 substantially de-risked the business and introduced long-term and sustainable efficiency gains. Our investment in new hatcheries, seal-proof offshore Fortress Pens, feed barges and mooring systems and lease site optimisation reveals our commitment to operate in a socially responsible way.

We have upgraded every facet of our operations to ensure we are accessing the latest technologies, delivering best practice farming methods and remaining at the cutting edge of innovation and risk mitigation in our industry.

Environmental risk has been central to the Huon Method of farming, and never more so than over the last 2 years.

Closely monitoring our 3 biosecure growing regions, namely the Huon River and D'Entrecasteaux Channel, Macquarie Harbour, and Storm Bay, is central to Huon's strategy of managing and mitigating environmental risk. Since 2014 we have recorded deteriorating environmental conditions at Macquarie Harbour. To help restore the health of Macquarie Harbour, Huon has decreased stocking densities, installed an oxygenation system and adopted a policy of harvesting early.

Huon felt obliged to initiate legal action and remains committed to sustainably farming in Macquarie Harbour. We are focused on supporting our workforce in the region and in undertaking whatever actions are needed to mitigate risk to the Company and provide certainty for the long term viability of Macquarie Harbour as one of Huon's growing regions.

In the Huon River and Channel we have reorganised our leases to place them in higher energy locations that suit Huon's style of farming and, at Storm Bay, we have pioneered the use of offshore sites to mitigate our impact on Tasmania's sensitive waterways.

The other important area of risk is market risk which is anything that affects our reputation, the challenges arising from operating in a competitive marketplace and changing consumer preferences.

Average consumption of salmon in Australia is below many other developed countries where rapid growth has been driven by the fresh modified atmospheric packaging (MAP) salmon market. Huon has been supplying the MAP/chilled packaged salmon market in Australia for the past 5 years and is well placed to take advantage of the growth potential offered by this segment. We are continuing to research innovative product extensions.

A key development in FY2017 was the execution of new retail sales agreements resulting in 22% of revenue being generated by the domestic retail market. This delivers a better balance to Huon's sales channel mix and also provides a level of certainty in planning future production.

While there have been short term fluctuations in international salmon prices, our expectation is that long term global supply will not meet expected demand. We are looking to increase our export activity in FY2018 and consolidate some new, long term relationships in the Asian market.

We will continue to build our marketing around differentiating the Huon brand from generic Atlantic salmon in both the domestic and export markets to ensure that consumers, wholesalers and chefs understand the quality promise that comes with the Huon name.

Finally I want to mention our commitment to the health and safety of our employees. Huon's "Safety First" ethos and relentless focus, including at Board level, on safety improvement in all areas of the business, has resulted in continued improvement in its Loss Time Injury Frequency Rate (LTIFR) in FY2017, from 7 in the previous corresponding period to 3. I together my fellow board members are particularly proud of this as there is nothing more important to us than the welfare of the people that come to work for Huon every day.

### **Continuous Improvement**

The ongoing success of the business has been built around a process of continuous improvement that is embedded into every aspect of the business and was evidenced throughout the successful delivery of our Controlled Growth Strategy.

We are not only getting the production basics right but also continuing to invest significantly in research and development to secure our sustainable future. We have been an active participant in the industry-wide selective breeding program since its inception and support the rapidly expanded research capability for vaccine development at the Aquatic Animal Health and Vaccine Centre of Excellence (AAHVCE) in Launceston.

Huon was the first salmon producer in Australia to achieve the Global G.A.P. certification and is a British Retail Consortium A-rated seafood processor.

We are also creating opportunities through technical innovations and efficiency projects. Huon has approval for the investment, in FY 2018, of \$40 million to construct our new Whale Point salmon nursery. This is a first step towards the integration of land-based farming into our production chain which involves utilising future technology to increase the size and health of our 'smolt to sea'.

We are continuing to improve farming and feeding strategies. We transferred fish on to improved feed diets resulting in a rapid increase in fish weight in the second half of FY2017. We now have new feed supply contracts in place and are conducting ongoing feed diet trials. Fish feed is developed to provide the ideal nutritional needs of our fish to optimise good growth, the feed conversion ratio (FCR) and health status, and includes recently moving to natural ingredients to provide these benefits.

We have developed, and are now using, a shore-based feeding capability. Our new automated offshore feed barges incorporate purpose built Wi-Fi capabilities and video monitoring. We can now

remotely operate the feed barges and monitor fish health from our Hobart office, which eliminates lost feed days and creates a much safer working environment.

Having established our offshore farming sites we continue to assess our growth requirements and have recently obtained additional research licences that will allow the company to expand the limits of offshore farming and potentially identify new off shore leases.

## **Outlook**

Turning now to the outlook for Huon and some general comments on the salmon industry globally.

Huon's primary focus will continue to be on the growth of the high value domestic and international markets. Demand for farmed salmon from Australian consumers is expected to continue growing at around 10% per annum. We are well-placed to take advantage of rising demand with our lease space availability, particularly in offshore locations.

We see continued above average growth in the chilled packaged salmon market in Australia, particularly MAP products, and this will support the ongoing diversification of Huon's sales channel mix.

International salmon supply was adversely impacted in the first half of FY2017 as a result of severe outbreaks of sea lice in Norway and Scotland and a deadly algal bloom in Chile, in early 2016. Growing conditions, both locally and internationally, have improved which has seen increased short term supply of fish into markets. However our expectation is that long term global supply will not meet expected growth in demand.

We intend to increase our export activity over the next two years to take advantage of the strong demand for the Huon brand in Asia. We are targeting increased sales penetration of the Japanese market and will develop new sales opportunities in a range of other key, high-performing, Asian markets.

As we manage our expansion, capital expenditure will be focused on targeted growth and efficiency functions. Production levels are likely to remain low in Macquarie Harbour but we will continue production expansion at our Storm Bay leases. Construction of our recently-approved land based grow-out nursery at Whale Point is expected during FY2018, with first fish to sea expected in FY2019. As a result, capital expenditure is going to be above our previous expectations for FY2018 of \$65m.

FY2018 has started well with favourable growing conditions and fish responding well to improved fish feed diets and the fortress pens. While we still have the higher risk growing cycle of summer ahead of us for FY2018, current estimates put our harvest volume at around 24.5 thousand tonnes.

While market pricing levels are expected to be similar to FY2017, we are forecasting higher export sales during FY2018, which is expected to result in overall lower average prices than in FY2017.

The full impact of the CGS investment is expected to be reflected in substantially improved operating efficiencies in FY2018. As a result we are confident that profitability will continue to grow over the coming years.



## **Conclusion**

Huon is committed to farming ethically, transparently and with a view to the long term sustainability of our business and of the Tasmanian environment. This is the 'Huon Way' and it reinforces our social licence to operate.

Maintaining a broad social acceptance of our operations, both in local communities and the wider public, is critical to ensuring Huon remains a leading producer of high quality farmed fish and will continue to grow safely, sustainably and profitably.

I would like to take this opportunity to thank all of our employees for their hard work, and show my appreciation for the support of our local communities, where we live and work, our customers, our suppliers and you, our shareholders.

Thank you.