



31 October 2018

HUON AQUACULTURE GROUP LIMITED (ASX: HUO)
Announcement

2018 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, Wednesday 31 October 2018, The Stables, RACV/RACV Hobart Apartment Hotel, 154-156 Collins 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
10.30am, Wednesday 31 October 2018
The Stables, RACV/RACF Hobart Apartment Hotel
154-156 Collins St, Hobart

The Year in Review

I will now move to my report for the year ended 30 June 2018.

Introduction

It has been a particularly busy year for Huon on a number of fronts so it is very pleasing that in reviewing our performance I am able to report another year of record operating earnings for the Company.

It has been a year in which we have dealt with some significant environmental challenges and at the same time continued to invest in the infrastructure needed to grow our production capacity, building on the foundations put in place five years ago with our Controlled Growth Strategy.

Growing salmon takes three years from egg to market, so everything we do in our business is done with a 3-5 year time horizon in mind. In farming you have no choice other than to take a long term view. The planning for the Controlled Growth Strategy began back in 2012, and was all about reinventing the way we operate as an aquaculture business so that we would be able to operate efficiently and at scale. We have a clear vision of where we want Huon to be in 2020 and beyond and this requires being at the forefront of innovation and a commitment to continued investment in production capacity. Peter will talk more about that in his address.

It will come as no surprise to the Tasmanians here today that as an aquaculture business our performance is influenced by the vagaries of the weather. In May this year, here in Southern Tasmania, we experienced a one in fifty year storm that wreaked havoc onshore with widespread flooding and wind damage that also put our fortress pens out in Storm Bay to the test. This followed an early start to summer with unusually high temperatures that extended through to the end of April – not the most ideal of conditions for growing salmon.

Huon is and always has been, very mindful of our responsibility to operate sustainably and to take care of the environment. This commitment played out over the past 18 months with our legal challenge in the Federal Court of Australia in which we argued that the Commonwealth Minister's 2012 decision that permitted the expansion of salmon farming in Macquarie Harbour was invalid.

In July this year Huon received the Court's decision to dismiss our application and, while disappointing, it would be fair to say that our legal action was ultimately successful in that it focused public attention on the urgency of addressing the long term sustainability of salmon farming in Macquarie Harbour. The Tasmanian EPA has reduced the biomass cap back to pre-expansion levels and the industry is now united in taking action to improve farming operations. So it is heartening that for the first time in many years we look towards the future health and recovery of Macquarie Harbour with a sense of optimism.

Financial Performance

Let me now provide a brief overview of Huon's financial performance in FY2018.

Revenue increased 23% to \$318 million on the back of a 25% rise in harvest tonnages to just under 23,000 tonnes. This performance, together with a continued focus on managing costs, contributed to Huon's operating EBITDA increasing 14% to \$71.8 million and operating cash flow increasing 7% to \$57.9 million.

While this represents a record operating result, it would be fair to say that without the less than ideal growing conditions throughout summer it could have been much better. As Peter will elaborate on later, this also has some short term implications for our harvest volumes in FY2019 which we have already indicated to the market will be below FY2018.

At Huon we report on our operating earnings because that is what delivers the cash flows needed to expand production and pay dividends to our shareholders. We are however required to report a statutory profit which includes a Fair Value Adjustment to the value of our biological assets. As at 30 June 2018 this value declined due to reduced biomass in the water, compared to the previous year, resulting in a reduction to statutory profit of close to \$13 million. The impact on Huon's statutory net profit after tax (NPAT) for FY2018 was a 37% fall on the previous year's result to \$26.4 million.

Looking beyond these numbers, the Company's balance sheet remained strong at the end of FY2018 with gearing levels comfortable at around 26%, despite an increase in Huon's net debt from \$43.0 million to \$81.3 million as a result of increasing our capital expenditure to fund Huon's growth in production capacity.

Strategy

Ladies and gentlemen, I mentioned earlier that your board and management team has a clear vision of where Huon needs to be in 2020 and beyond and I want to focus on that for a minute because it drives the decisions we make and priorities that management sets for the business every day.

We aim to not only be Australia's leading supplier of salmon - "the world's most loved salmon"- in the Australian market but to also be the supplier of choice into premium niche markets for salmon into Asia. To do that, we will continue to expand production to first meet the growth in local demand and then tap into the growing appetite for salmon worldwide.

Beyond that we believe that Huon's investment over the past 30 years in product development, concept testing and trialling innovations in farming technology has resulted in the Company acquiring a significant amount of IP, not just for salmon farming practices but aquaculture more generally.

To put this theory to the test, two years ago Huon started a small scale trial, in conjunction with the NSW Department of Primary Industries, to farm Yellowtail Kingfish off the coast of NSW. The results to date have been encouraging and Huon is now working towards establishing its first commercial operation outside Tasmania. The opportunity to establish a similar operation off the Western Australian coast was announced a couple of weeks ago when Huon secured a licence to operate in a new aquaculture zone off the Houtman Abrolhos Islands. While this is still early days, we see the potential for these two Kingfish operations complementing each other through their ability to service the strong demand for this fish in both the domestic and lucrative Asian markets.

It is our view that both ventures have the potential to deliver a significant financial return to Huon over time.

It is important to emphasise, as we enter a new region, that growing a business which relies on the health of the natural environment doesn't happen without the involvement of many key stakeholders. We are, and always have been, very mindful of our place in the community, our responsibility to operate sustainably, and to take care of the environment.

And it goes without saying, as an employer of over 600 people, that one of the board's first priorities is to ensure they all understand and embrace Huon's Safety First ethos. This is about implementing health and safety systems, programs and processes so that each and every one will return home safe and well to their families at the end of each working day.

Capital Management

Turning now to capital management. The Board was pleased to declare Huon's first full year dividend of 10 cents per share with its decision to pay a final dividend of 5 cents per share on 11th October. Both the interim and final dividends for FY2018 were franked at 50 per cent.

Huon's dividend policy is to maintain an annual dividend payout ratio of up to 35 per cent of Operating NPAT, and for FY2018 the 10 cent dividend represents a payout of 20 per cent.

In considering the payment of the final dividend, Directors took into account the ongoing financing and capital expenditure requirements of the Company.

In FY2018 Huon spent around \$88m on core infrastructure such as Whale Point and expanding production at Storm Bay. It was funded entirely from cash flow and existing debt facilities.

This year Huon will spend around \$70 million, half of which will go towards completing Whale Point and further expansion in Storm Bay. We are confident that Huon will be able to fund this from operating cash flow and its recently renegotiated and expanded debt facilities, whilst at the same time continuing to increase profitability.

Conclusion

Finally, I would also like to take a moment to reflect on some industry recognition of all the great work that is being done at Huon Aquaculture. We are very proud that, earlier this month, Frances and Peter were the joint recipients of the 2018 Australian Farmer of the Year award. We are very aware that this would not have been possible without the dedication and commitment of everyone in the Huon family to making Huon the great company it is today.

In addition Frances, along with 20 other influential women in seafood, was inducted to the inaugural Women Industry Network Seafood Community (WINSC) Honour Roll earlier this month. The Roll acknowledges and celebrates outstanding achievements of women working in the seafood industry and I know I speak for everyone at Huon when I say we are all very proud that Frances' contribution to the industry has been recognised in this way.

So in conclusion, this is an exciting year for Huon as the final building blocks are put in place for its next stage of growth. On behalf of the Board I wish to thank our customers, suppliers, local communities, employees, and you, our shareholders, for your support.

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
10.30am, Wednesday 31 October 2018
The Stables, RACV/RACT Hobart Apartment Hotel
154-156 Collins St, Hobart

Thank you Neil, good morning everyone and may I also welcome you and thank you for your attendance at today's AGM.

Huon Aquaculture's strong financial performance in FY2018 demonstrates the resilience we have worked hard to build into the business through our established and continuing track record of investing for growth.

The \$200 million, 3-year investment in our Controlled Growth Strategy laid the foundation for our record earnings performance in FY2018. Over the course of last year and in FY2019 we will have spent a further \$155 million constructing the salmon nursery at Whale Point as well as installing new fortress pens and supporting infrastructure in Storm Bay. These are exciting developments at Huon that I want to spend some time talking about today but before I do that, I think it's appropriate that I review our operational performance in FY2018 including some of the environmental challenges we had to deal with during the year.

Operational Challenges

In the first half of FY2018 we enjoyed excellent growing conditions and record average fish harvest weights. As already mentioned by the Chairman, the second half saw abnormal weather patterns that caused a rapid and sustained rise in water temperatures, well above the maximum required for optimal growth. The higher water temperatures led to higher operating costs as net cleaning schedules were increased and more frequent bathing was required to address an increased incidence of amoebic gill disease (AGD). As a result, we experienced higher mortalities and lower fish weights.

In May we experienced severe storm conditions in southern Tasmania which caused damage to some of our infrastructure in Storm Bay. Over the following months we completed a thorough assessment of the impact of the storms in line with our compliance reporting requirements to the Tasmanian Department of Primary Industries. Through this we identified the loss of 120,000 fish and that the breach was not related to the structural integrity of the Fortress pens but was a result of old style feed bins breaking free and tearing the Fortress pen netting. These feed bins are no longer in use at Storm Bay.

Cumulatively the impact of the abnormal weather patterns and associated operational challenges led to a significant reduction in the biomass to 12,960 tonnes at 30 June 2018 compared to 16,663 tonnes at the end of financial year 2017.

Extreme weather events, while not pleasant, do provide us with valuable data and insights that we are able to immediately apply to further strengthen our risk mitigation strategies. There is no reference manual for farming salmon in high energy sites like Storm Bay, because we are the first to go there and as a result we are constantly learning, modifying and getting better at what we do. Last year we made a number of changes to the way we resource and manage our net cleaning and bathing schedules as well as achieving significant efficiencies through the phased introduction of unmanned feed barges and automated feed technology.

I firmly believe that Huon was able to absorb the impact of these operational challenges without losing earnings momentum because of the investments we have made in modernising our infrastructure in recent years as well as the outstanding efforts of Huon's talented and hard-working employees.

Record sales, positive pricing and favourable supply and demand

Sales volumes for FY2018 rose to just shy of 23,000 tonnes up from just under 18,500 tonnes in FY2017. This very pleasing year on year improvement nevertheless masked the impact of the operational challenges in the second half which resulted in our projected sales volumes for the year falling short by 1500 tonnes.

The average fish harvest weight for FY2018 was 4.78kg which reflects record first half fish harvest weights of 5.29kg which fell to 4.06kg in the second half because of the operational issues linked to abnormally high water temperatures. The lower fish harvest weights in the second half of FY2018 were offset by an increase in the average sale price to \$14.35/HOG kg compared to \$13.43/HOG kg in the first half of the year.

Over the year to June 2018 international salmon prices, while volatile, have traded at elevated levels as the growth in global supply failed to meet the increase in global demand. This supply and demand imbalance is expected to continue to support elevated pricing in 2019 and over the medium term.

Prices in the domestic market also increased during FY2018, where again demand is growing faster than supply, and are expected to remain at similar levels in FY2019.

Maximising the opportunities of increasing demand

The long term global trend for growth in demand for protein sourced from aquaculture is well documented.

The global population in 2030 is expected to have grown by 1 billion and by 2050 it is estimated to be close to 10 billion. Generating sufficient protein to feed this growing population will be a major challenge given the limitations on agriculture to use more land and water resources.

Currently only 6% of protein for human consumption comes from fish and other seafood, despite 70% of the Earth's surface being covered by oceans.

This long term macro trend of increasing demand for protein supports Huon's strategy of investing to grow our sustainable aquaculture business. Over the past 20 years we have expanded production from 1,200 tonnes to 23,000 tonnes and we are not stopping there.

As the Chairman has already mentioned, the Controlled Growth Strategy, implemented between 2014 and 2016, provided the platform on which we could plan for the future expansion of the business. It also positioned us at the forefront of aquaculture technology and developed a number of initiatives and processes that are industry leading, both internationally and domestically. These included our patented Fortress Pen designs for high energy aquaculture; automated feeding technology that allows us to feed, monitor and optimise conditions for our entire fish stock from a central control centre and our redesigned well boat to allow for effective fresh water bathing.

Our ongoing commitment to remain at the cutting edge of aquaculture technology and innovative farming methods continued in FY2018. Huon is investing \$45m in the construction of a new 1,400-tonne, land based nursery at Whale Point. The facility is on track to be operational at the end of calendar 2018 and represents the biggest step change in core product development and process in the Tasmanian salmon industry since the implementation of Huon's offshore farming.

The Whale Point nursery will enable smolt to be put to sea when they are at a more advanced stage of growth which will mean the time that fish are at sea will be reduced from 14 months to under 12 months; the risk of mortalities will be reduced; larger fish can be grown in the same time frame as current production and total farming capacity can be increased without having to expand existing lease area.

The advantages of our investment in sustainable farming technologies can also be seen in the opportunity our Fortress Pen technology creates to focus expansion solely on high energy sites at Storm Bay. In FY2018 we installed eight Fortress Pens at Storm Bay to bring total current production capacity to 6,500 tonnes. However, we have the potential, with the inclusion of Yellow Bluff, to produce an additional 13,500 tonnes of fish at Storm Bay, on top of our current total production across the business of 23,000 tonnes.

At Huon, our objective is to continue expanding sustainable production to meet not only local demand but also to satisfy the growing appetite for salmon worldwide. Forecasts suggest by 2025 an additional 11.5 million tonnes of seafood will be required to satisfy the projected global market demand. And Asia, a market place right on our doorstep, is expected to account for 73% of the additional fish consumed worldwide in 2025.

Optimising the sales channel mix

The process of diversifying our sales channel mix has progressed significantly over the past 3 years. We have reduced the dominant weighting of salmon sold through the wholesale market by increasing our exposure to contracted sales into the retail market. Initially this has been achieved by boosting sales into Australia's supermarkets from 10% of total revenue in FY2016 to 22% in FY2017. In FY2018, international retail sales accounted for an additional 4% of revenue, bringing total contracted sales into both the domestic and international retail market to 28% of revenue.

Huon has spent many years laying the foundations for the development of a sustainable, long-term client base in Asia by nurturing relationships with retailers and distributors who can open doors to opportunities that would not otherwise be available. There are niche markets in Asia that can deliver strong returns to the business and Huon's success this year securing regular supply of salmon into these niche markets, proved that returns in this market can be equivalent to those in the domestic market

Huon doesn't just grow salmon; we also spend a lot of time working out how to position our brand in the market. 'Not all salmon is Huon' is a good example of a campaign that we are running in key markets, both here and internationally, to drive consumer brand awareness.

Huon will continue to invest in its business to business and consumer brands to ensure that Huon Salmon receives a premium price in both the domestic and international market place.

People and Safety

Of course it goes without saying that you can't grow a business without good people and building the skills, knowledge and capabilities of its people is integral to the success at Huon. During FY2018 we launched our "People & Capability" strategy which encompasses workforce planning, the development of career pathways, investing in lifting general literacy and numeracy skills as well as information technology competence.

A key plank of the "People & Capability" strategy is the development of leadership capability across the business through the "Huon Leaders Program" which was developed during the year and is being launched in the 2018/19 financial year.

In FY2018 our workforce increased from 500 to just over 600 employees and, while we have remained focused on embedding a “Safety First” culture, some of our key safety metrics weakened last year. In the current year there will be increased emphasis on continuous improvement of health and safety systems and processes alongside empowering our people to manage safety and health in their specific areas of responsibility.

Outlook

Our expectation for FY2019 is that domestic demand for salmon will continue to grow at around 10% per annum and internationally the shortfall in supply over demand supply is expected to persist.

We entered FY2019 with a lower biomass than had originally projected due to the knock on effects of the difficult growing conditions in FY2018. We have experienced good growing conditions thus far in 2019 and are confident in achieving our current estimated FY2019 harvest volumes of approximately 20,000 tonnes.

Huon’s primary focus will continue to be growing our wholesale business, however, we also expect sales in the domestic retail channel to at least reflect the growth in demand, continuing to provide a valuable diversification in Huon’s channel mix.

The reduction in the biomass means we will need to be selective in how we service the strong demand for Huon’s brand in Asia during FY2019. Our expectation is we will only be in a position to supply longstanding customers in Asia this year, however we anticipate that with the increased volumes coming through in FY2020 that we will prioritise those clients in the wider Asian market where we have been successful in establishing new relationships over the past year.

We support the reduction in the biomass cap at Macquarie Harbour so our focus for production expansion will be at Storm Bay, with the first fish to sea from the Whale Point Salmon Nursery expected in May 2019.

A consequence of constrained supply and growing demand is that pricing globally is expected to remain high. Domestic prices are also expected to remain at current levels throughout FY2019. As a result, we are confident that profitability will continue to grow in FY2019.

Beyond FY2019, Huon is well placed to take advantage of the growth in demand both domestically and internationally as expansion in Storm Bay and the increased production capacity of Whale Point come on stream.

Conclusion

So in conclusion, the fundamentals of the salmon industry support our strategy of expanding capacity to service growing domestic demand and targeting Asia as a key market.

Our ongoing investment in new aquaculture technologies and processes means we are ready for the next stage of our growth while maintaining the long term, sustainability of our business and the environments where we operate.

Huon is committed to the ‘Huon Method’ of farming, and maintaining our social licence to operate safely, sustainably and profitably with the broad support of the local communities where we work and the wider public. In recognition of this commitment Huon became the first salmon farmer to be RSPCA approved in July this year.

I look forward to another successful year and extend my thanks to our local communities and suppliers and to you, our shareholders for your support.