HUON AQUACULTURE GROUP LIMITED
ABN 79 114 456 781
Appendix 4D
Half-Year Report

1 Reporting period

- Reporting Period – Half-year ended 31 December 2019
- Previous Corresponding Period – Half-year ended 31 December 2018

2 Results for announcement to the market

	31 December 2019 $'000	31 December 2018 $'000	% Change
Revenue from ordinary activities	182,217	139,271	30.84%
Profit (loss) from ordinary activities after tax attributable to members	21,996	26,350	(16.52%)
Net profit (loss) for the period attributable to members	21,996	26,350	(16.52%)

Dividends	Amount per security Cents	Franked amount per security Cents	Total dividend amount $'000
Current year to 31 December 2019:			
Interim Dividend (per ordinary share)	0	0	0
Prior year to 30 June 2019:			
Final Dividend (per ordinary share)	3.0	1.5	2,620
Interim Dividend (per ordinary share)	3.0	1.5	2,620

- Record date for determining entitlements to dividend – not applicable
- Payment date of dividend – not applicable

- Explanation of results – Refer to the Interim Financial Report, the Media Release and Results Presentation released today for further explanations of the figures presented.

3 Net Tangible Assets per security

	31 December 2019	31 December 2018
Net tangible assets per ordinary security ($ per security)	$ 2.74	$ 3.78

4 Entities over which control has been gained or lost during the period

- None.

5 Details of individual and total dividends or distributions

- Refer item 2 above.

6 Details of any dividend or distribution reinvestment plans

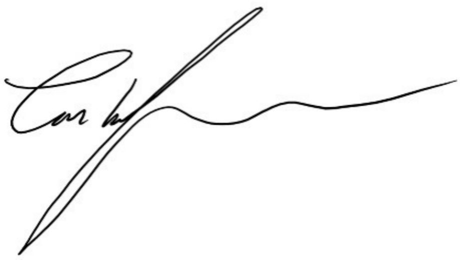
- The Company does not currently have a dividend reinvestment plan.

7 Details of associates and joint venture entities

- The Company does not have investments in Associates or Joint Ventures.

8 Independent audit report or review

- The Interim Financial Report has been indepentently reviewed by the Company's auditors. The review report is not subject to a modified opinion, emphasis of matter or other matter paragraph. A copy of the review report is included in the Interim Financial Report.



Thomas Haselgrove
Company Secretary
Date: 21 February 2020

HUON AQUACULTURE GROUP LIMITED

ABN 79 114 456 781

Interim Financial Report
For the Half Year Ended 31 December 2019

HUON AQUACULTURE GROUP LIMITED

Interim Financial Report for the Half Year Ended 31 December 2019

CONTENTS	Page

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Huon Aquaculture Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The Directors of Huon present the report of the consolidated entity consisting of Huon Aquaculture Group Limited (the "Company") and the entities it controlled ("Consolidated Group", "Huon") at the end of, or during, the half-year ended 31 December 2019.

DIRECTORS

The following persons were directors of Huon Aquaculture Group Limited during the whole of the half-year and up to the date of this report:

Peter Bender	Executive Director
Frances Bender	Executive Director
Neil Kearney	Non-Executive Chairman
Simon Lester	Non-Executive Director
Tony Dynon	Non-Executive Director

COMPANY SECRETARY

Thomas Haselgrove

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Group during the financial period were hatching, farming, processing, sales and marketing of Atlantic salmon and Ocean trout.

OPERATING AND FINANCIAL REVIEW

Performance Overview

By the end of the first half Huon was on target to achieve its objective of making up the ground lost due to the setbacks in production from biological and weather events in FY2018 and FY2019. The loss in momentum resulted in Huon falling behind its annual growth target for production of 10%pa so a major focus has been to return the biomass levels back to where they would have been, had these setbacks not occurred. The performance of the 2019 year class, particularly in Q2, has been exceptionally strong, predominantly as a result the structural improvements that have been made over the past two years.

The successful completion of the investment program has meant that Huon is now in a position to increase salmon supply into a growing domestic and international market. Huon can, in effect, focus on its core strategy of growing the market, growing production and enhancing operational efficiency, and doing so both safely and sustainably.

A major part of the investment program was the construction of the Whale Point Nursery, the outcomes from which have to date been in line with expectations. In its first year it has enabled us to grow smolt to a larger size before putting them to sea – the 2019 Year Class average size when released was 20% higher at 282 grams compared to the 2018 Year Class. Feed rates and feed conversion have continued to improve as a result of executing various feeding strategies. A key contributor to that has been the use of monitoring equipment installed in the pens, controlled remotely from Hobart, which continue to enhance feed efficiencies.

Huon began FY2020 with low harvest weights and growth in the first quarter which was slow to recover from the effects of summer 2018/19 and jellyfish and gill necrosis issues. This resulted in low sales volumes in Q1 as the business had predominantly only small fish to sell which reduced its competiveness in the wholesale market. It also meant export sales were difficult, particularly in the China market where there is a preference for larger fish.

Growth rates were slow to pick up, however there was a noticeable improvement in spring and early summer. With fish size now more competitive in the wholesale market, and more acceptable for export markets, harvest rates were increased through the second quarter.

The rebuild of the biomass, even with a late start to growth, has created a significant amount of fish to sell with the planned harvest for FY2020 totalling at least 25,000 tonnes. Even with wholesale sales responding to a more acceptable fish size, the increased growth resulted in higher tonnages into the export market.

As expected retail volumes eased with the completion of the MAP contract at the end of FY2019. In line with Huon's long term strategy to grow its retail channel, we increased our supply into retail segments outside existing contractual requirements. Over 2,000 tonnes was sold through the retail channel in 1H2020, compared to around 2,500 tonnes sold on average each half with the MAP contract. This was an encouraging sign that the retail market recognises Huon's reputation for quality and that there is unmet demand for its product.

With the volume split across the year expected to be even, Huon is on target to meet 25,000 tonnes for FY2020.

Production costs have risen over the last two financial years as a direct outcome of the challenges experienced and these have carried through into FY2020 with the 2018 Year Class. With a high proportion of feed being imported Huon has also suffered from higher feed costs as the AUD continued to fall. The higher fish cost will continue until the 2019 Year Class harvest commences in Q4 of FY2020.

A major shift in industry dynamics for feed is underway as feed supply has progressively been changing with BioMar and Ridley both building new feed mills in Tasmania over the past year. Huon now has the choice of feed sourced from three plants in the state which will provide both logistical and efficiency advantages for Huon commencing in Q4 FY2020.

A major milestone was passed in 2019 when Huon secured the East of Yellow Bluff lease in Storm Bay. This represented the final piece of the biosecurity puzzle that needed to be put in place for Huon to position its farming operations in line with the industry biosecurity plan. Having fish in the right farming areas at the right time minimises the biological risk and at the same time provides efficiencies in the management of the biological stock. In combination with Huon's hatcheries and grow out facility it also maximises throughput options and takes salmon growing capacity towards 40,000 tonnes.

This year the industry also implemented a trial vaccine for pilchard orthomyxo virus (POMV). Over the past eight years POMV has become more prevalent, increasing the level of mortalities and reducing growth outcomes for affected fish. The vaccine, developed with support from the Government and industry, has proved extremely beneficial with mortalities during the smolt input phase (when fish are most at risk) significantly reduced. All smolt going to sea in CY2020 will be vaccinated with the new vaccine.

With the higher number of fish projected to be required to meet Huon's growth in production, Huon has invested $2.5m into the industry breeding program. This takes its share of the biological output from the program from 21% to 50%. With larger populations going to sea this move ensures that Huon will maintain its ability to receive maximum benefit from the breeding program which is aimed at developing fish suited to the Tasmanian environment and to combat amoebic gill disease (AGD). It is one of the key components in Huon's strategy to protect the business from the impacts of climate change. Recent technological advances introduced should see step change improvements in the future biological output from the program.

During February the well boat Ronja Storm arrived in Tasmania. Currently the most advanced fish bathing and transportation vessel in the world, the Ronja Storm is the last major part of the Huon growth strategy's investment in infrastructure. The vessel is designed to enable it to achieve increased production capacity and do it more efficiently. It includes technical advancements including on board fresh water production, and higher capacity water quality systems and oxygen generation. The large size is designed to facilitate one cycle bathing of Huon's existing 240m pens to ensure fresh water bathing is efficient and low stress on fish. This bathing cycle is expected to reduce the number of baths each pen will require over the fish lifecycle. An on board grader will allow progressive harvesting in the latter stages of the fish lifecycle. By progressively harvesting of a specific fish size, more fish per pen are expected to be grown without impacting Huon's existing low stocking density.

Capital Management

As a result of the ongoing focus in 1H2020 on building biomass and good spring and early summer growing conditions, together with the completion of all major infrastructure projects in FY2019, debt levels have remained high. As a result the company has negotiated with its banking partners to provide greater headroom to the key banking covenant, the leverage ratio, which has been increased for FY2020 from 3.0 to 3.5 times. Scheduled debt repayments in Q4 of $5m have also been postponed. Profit in the half was not within business expectations so the focus has been clearly set on managing cash flow to support the biomass rebuild. As a result, the Directors have decided to suspend the dividend in FY2020.

Changes in accounting policies - AASB 16 Leases

The Group has adopted AASB 16 using the modified retrospective approach from 1 July 2019 and as such has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions. Tables and commentary included in the Director's Report contain comparisons for before (Pre AASB16) and after adoption (Post AASB16) of AASB 16.

The following commentary makes reference to financial information for 1H2020 that is Pre AASB16. This is used as a comparison against the prior corresponding reporting period as the Directors believe this provides more meaningful comparison when understanding the operations of the company.

Operating Overview

Statutory Earnings - Six months ended		Post AASB 16 31 Dec 2019	Pre AASB 16 31 Dec 2019	31 Dec 2018	Pre AASB 16 v 31 Dec 2018 Dec to Dec Change	Dec to Dec % Change
Tonnage	t	13,321	13,321	9,019	4,302	48%
Revenue [1]	$M	178.1	178.1	136.3	41.8	31%
Revenue per HOG kg	$/kg	13.37	13.37	15.11	(1.74)	-12%
EBITDA [2]	$M	49.2	46.6	46.6	-	0%
EBITDA per HOG kg	$/kg	3.69	3.50	5.17	(1.67)	-32%
EBITDA Margin	%	27.6%	26.2%	34.2%	-8.0%	-23%
EBIT	$M	29.8	29.6	34.7	(5.1)	-15%
NPAT	$M	22.0	22.6	26.4	(3.8)	-14%
Fair value adjustment of Biological Assets	$M	26.2	26.2	25.0	1.2	5%
Related income tax refund/(expense) [3]	$M	(7.9)	(7.9)	(7.5)	(0.4)	5%
Biological Assets	$M	252.1	251.6	228.5	23.1	10%
Earnings per share	c	25.19	25.83	30.17	(4.34)	-14%
Return on assets [6]	%	1.1%	1.2%	5.2%	-4.0%	-78%
Operating cash flow	$M	19.3	14.2	(1.6)	15.8	-988%
Net debt [4]	$M	234.4	139.7	129.4	10.3	8%
Total gearing ratio [5]	%	72.0%	41.8%	38.8%	3.0%	8%

Operating Earnings - Six months ended		Post AASB 16 31 Dec 2019	Pre AASB 16 31 Dec 2019	31 Dec 2018	Pre AASB 16 v 31 Dec 2018 Dec to Dec Change	Dec to Dec % Change
Revenue	$M	178.1	178.1	136.3	41.8	31%
Operating EBITDA [8]	$M	23.0	20.4	21.6	(1.2)	-6%
Operating EBITDA per HOG kg	$/kg	1.73	1.53	2.39	(0.86)	-36%
Operating EBITDA Margin	%	12.9%	11.5%	15.8%	-4.4%	-28%
Operating EBIT	$M	3.6	3.4	9.7	(6.3)	-65%
Operating NPAT [9]	$M	3.7	4.3	8.9	(4.6)	-52%
Operating Earnings per share	c	4.16	4.81	10.10	(5.29)	-52%
Operating Return on assets [7]	%	2.5%	2.7%	5.9%	-3.2%	-54%

1 Revenue from the sale of goods.
2 EBITDA is a non-IFRS financial measure which is used to measure business performance, using net depreciation and amortisation recognised in the income statement.
3 Related income tax at current tax rate.
4 Net Debt is total debt net of cash and cash equivalents.
5 Total Gearing Ratio is measured as debt (net of cash)/net assets.
6 Return on Assets is measured as statutory EBIT (rolling 12 months)/total assets.
7 Operating Return on Assets is measured as Operating EBIT (rolling 12 months)/total assets.
8 Operating EBITDA excludes the impact of the Fair Value Adjustment of Biological Assets.
9 Operating NPAT excludes the impact of the Fair Value Adjustment of Biological Assets and related tax impact.

With the recovery of the biomass, harvest volumes rose 48% and revenue rose 31% to $178.1m on pcp. With sales weighted to Q2 and heavily weighted to the export channel, the revenue increase was achieved at a lower average sales price of $13.37/HOG kg (-12% on pcp). Combined with only a 7% drop in production and freight costs, this resulted in operating EBITDA falling 6% to $20.4m.

Production costs (excluding freight) fell 10% to $10.79/HOG kg. With the higher export channel mix, freight costs increased 50% to $1.05/HOG kg. The combined production cost of $11.84/HOG kg is consistent with August guidance of costs remaining above $11.50/HOG kg.

Fish survival rates and feed conversion improved significantly in Q2, reflected in the increased harvest weight of 5.07kg compared to 4.10kg pcp. However the improvement came too late in the 2018 Salmon growing cycle to make more of an impact on production costs in 1H2020.

As a result, EBITDA /HOG kg reduced 36% to $1.53 /HOG kg. Depreciation increased 42% to $16.9m, pushing down operating NPAT from $8.9m in the pcp to $4.3m this half.

Statutory NPAT fell 14% to $22.6m, supported by a small uplift in the Fair Value Adjustment of Biological Assets over pcp of $1.2m.

Net assets increased 6% on the prior period in 1H2020, with the rebuild in biological assets predominantly debt funded. With operating cash flow at $14.2m and capex kept low at $12.5m, net debt levels rose 1% in 1H2020 to $139.7m and gearing (net debt/equity) fell to 41.8% from the previous half of 44.2%.

Channel Mix

Sales Channel - Six months ended		Post AASB 16 31 Dec 2019	Pre AASB 16 31 Dec 2019	31 Dec 2018	Pre AASB 16 v 31 Dec 2018 Dec to Dec Change	Dec to Dec % Change
Wholesale HOG	t	6,045	6,045	5,507	538	10%
Retail HOG	t	2,014	2,014	2,895	(881)	-30%
Export HOG	t	5,263	5,263	617	4,646	753%
Total HOG kg	t	13,322	13,322	9,019	4,303	48%
Wholesale % of revenue	%	52%	52%	64%	-12%	-19%
Retail % of revenue	%	16%	16%	30%	-14%	-46%
Export % of revenue	%	32%	32%	6%	26%	443%
Wholesale $ / HOG kg	$/kg	15.21	15.21	15.81	(0.60)	-4%
Retail $ / HOG kg	$/kg	14.43	14.43	14.21	0.22	2%
Export $ / HOG kg	$/kg	10.85	10.85	13.03	(2.18)	-17%

Huon sales volume into the wholesale market increased 10% with a slight easing in the net price by 4% to $15.21/kg. The average price has remained strong but Huon fish size was smaller than expected in Q1 which required additional promotional spend in the wholesale market to improve take up of Huon fish. With a return to more acceptable fish size in Q2 this spend has since been re-directed into improving salmon consumption in the domestic market.

Huon's contracted sales into the domestic retail channel fell 30% on pcp following the completion of a 3-year retail contract, however volume remained above 2,000 tonnes for 1H2020 with Huon continuing to supply into retail segments outside existing contractual requirements.

Pricing into the retail market increased 1.5% on pcp to $14.43/kg due to the resulting change in product mix.

Recovery of harvest size in Q2 drove volume increases into the export channel, accounting for 32% of revenue in 1H2020. This coincided with a sharp drop in international pricing, the lowest since 2015, with spot prices falling heavily from August to mid November. This reflected a period of short term increased harvest levels in Norway and Chile, resulting in an average price of $10.85/kg for Huon.

International prices recovered during January 2020 and Fishpool futures indicate an average price increase of 17% in CY2020 over Q4 CY2019.

Demand growth trends are predicted to continue to outstrip supply growth both domestically and internationally. Domestic demand is expected to continue to grow at circa 10% per annum and global demand has been growing at 7% per annum. International supply is projected to only grow 2 to 3% over the next two years.

Biological Assets

Biological Assets - Six months ended		Post AASB 16 31 Dec 2019	Pre AASB 16 31 Dec 2019	31 Dec 2018	Pre AASB 16 v 31 Dec 2018 Dec to Dec Change	Dec to Dec % Change
Biological assets at fair value	$M	252.1	251.6	228.5	23.1	10%
Fair value adjustment (FVA)	$M	52.8	52.8	60.7	(7.9)	-13%
Biological assets (excluding FVA)	$M	199.3	198.8	167.8	31.0	18%
Total weight of live finfish at sea	t	23,001	23,001	18,939	4,062	21%
Biological asset value/kg (live)	$/kg	10.96	10.94	12.07	(1.13)	-9%
Fair value adjustment/kg (live)	$/kg	2.30	2.30	3.21	(0.91)	-28%
Biological assets/kg (live) (excluding FVA)	$/kg	8.66	8.64	8.86	(0.22)	-2%
Number of fish (harvest)	000's	2,629	2,629	1,887	742	39%
Sales volume (HOG kg)	t	13,321	13,321	9,019	4,302	48%
Average HOG weight	kg	5.07	5.07	4.78	0.29	6%
Average price/HOG kg (net sales)	$/kg	13.37	13.37	15.11	(1.74)	-12%
Net sales	$M	178.1	178.1	136.3	41.8	31%

The investment in biological assets rose 10% on pcp to $251.6m. While this is a positive move, it masks the underlying improvement in live weight at sea which increased from 18,900t to 23,000t (+21%) with number of fish increasing 13% and the average weight of fish increasing 8% over pcp. The number of fish at sea returns Huon to its long term average growth rates.

The Average value of biological assets decreased in 1H2020 from $12.38/kg to $10.94kg, reflecting the fall in the average market price in 1H2020 from $14.82 to $13.37. This was driven by the increased weighting in the channel mix to export and the fall in export pricing in Q2.

The resulting increment in the Fair Value Adjustment (FVA) was $26.2m for 1H2020, but against pcp this represents an increase of only 5%.

Biological assets, excluding FVA, fell 2% to $8.64/HOG kg from $8.86/HOG kg in pcp. Production costs have eased from FY2019 but the 18Year Class Salmon, which was the most impacted by the challenging conditions of FY2019, was still driving the total value in the water at the end of 1H2020.

The 19Year Class Salmon have benefited from efficiency projects and good spring and early summer growing conditions, resulting in above average growth rates and high survival rates. The main contributors to strong performance of the 19YC include:

- larger smolt to sea - 18YC were 236gm compared to 19YC at 282gm;
- continued improvements in the control room technology feeding fish;
- improvements generated from the industry breeding program;
- farming in high energy sites; and
- mild water temperatures in 1H2020 (warm winter, cool start to summer)

Cash Generation

Cash Generation - Six months ended		Post AASB 16 31 Dec 2019	Pre AASB 16 31 Dec 2019	31 Dec 2018	Pre AASB 16 v 31 Dec 2018 Dec to Dec Change	Dec to Dec % Change
Operating EBITDA	$M	23.0	20.4	21.6	(1.2)	-6%
Cash flow from operations	$M	19.3	14.2	(1.6)	15.8	-988%
Add – net interest paid	$M	4.9	2.6	2.8	(0.2)	-7%
– tax paid/(refunded)	$M	0.3	0.3	7.5	(7.2)	-96%
Adjusted cash flow from operations	$M	24.5	17.1	8.7	8.4	97%
EBITDA conversion	%	107%	84%	40%	44%	108%
Capex	$M	12.5	12.5	41.4	(28.9)	-70%
Cash at end of period	$M	15.5	15.5	4.5	11.0	244%

Adjusted Cash flow from operations increased from $8.7m in pcp to $17.1m in 1HY2020 with conversion of Operating EBITDA to cash improving to 84%.

Sales were weighted to the export channel in Q2, and with generally shorter payment terms in that channel, cash collections increased in 1H2020. Cash outflow was deferred into 2H2020 as a result of increased feed rates in Q2 which are reflected in higher trade payables at the end of 1H2020.

Capex spend of $12.5m in 1H2020 represents a significant easing following the completion of major projects in FY2019. The investment in biological stock maintained the high debt levels from FY2019. Full year capex is expected to be $25-30m, below previous guidance of $40m for FY2020.

Ongoing maintenance capex is expected to be in the range of $25-30m annually.

Environment

Huon continues to grow its production capacity guided by strategic environmental and risk management targets.

Following the granting of the East of Yellow Bluff lease in FY2019, Huon has completed the arrangement of its marine leases to meet internal targets as well as key components of the industry biosecurity plan. Having fish in the right farming areas at the right time also minimises the biological risk at the same time as providing efficiencies in the management of the biological stock.

Climate change has the potential to impact the Tasmanian salmon industry, particularly through varying sea water temperatures. Huon, through the reconfiguration of its lease sites, has positioned its marine leases in high energy sites offshore where it is less likely fish will be impacted.

Recognising the future growth in production requirements the business has made an additional investment in Tasmania's Selective Breeding Program. Huon now has access to 50% of the biological output, allowing it to maintain the benefits the program brings to its growth in production numbers.

Huon continues to undertake joint trials with feed suppliers to develop improved diets to help the fish convert feed in summer, when temperatures rise to levels that are higher than their preferred range for growth.

This year the industry also implemented a trial vaccine for POMV. The vaccine, developed with support from the Government and industry, has proved extremely beneficial with mortalities during the smolt input phase (when fish are most at risk) significantly reduced. All smolt going to sea in CY2020 will be vaccinated with the new vaccine.

People and Safety

Safety & Wellbeing

A number of significant wellbeing programs have been implemented in the first half of the financial year. These programs have not only focussed on reducing the risk of worker injury, but also on proactive initiatives to increase physical, emotional and financial wellbeing. This included Mental Health First Aid, One-on-One briefings with Superannuation experts and Health Checks.

A focus on injury management processes has seen a significant reduction in the number and severity of Worker's Compensation Claims. This is reflected in the LTIFR that has remained constant, despite a significant increase in production. Another contributing factor to this has been the review of our on-boarding processes and in particular, the pre-employment medical assessment.

The business is working towards achieving accreditation to the ISO45001 Standard for Work Health and Safety Management Systems, which includes completing the review of all Freshwater SOP's. A review of Marine Operation SOP's is presently underway, with an expected completion date of July 2020.

Focus on People, Culture and Leadership

The Workforce Development Strategy continues to be implemented with Employee capability development and the employee experience remaining a key focus. The Huon Leaders Program in 2019 has assisted Huon in building resilient leaders and there are plans to continue to build upon our leadership capability with the development of an Emerging Leaders program. This will be ready for rollout in 2020. In addition to this program a Welcome to Leadership Mentoring Program will also be implemented in 2020 to help newly promoted employees transition into their first Leadership role.

We continue to grow the skill sets of our Team with nearly 90 employees currently completing a Certificate III Aquaculture. Other employees are completing VET sector qualifications in seafood processing, engineering fabrication, marine mechanical and electrical apprenticeships.

Language, literacy and numeracy support continue to be made available to employees requesting support to assist them in their everyday work.

In 2019, Huon also introduced the Innovation Program to bring our employees' ideas to life. Since the Program's launch, the Innovation Team has received and reviewed ideas from across the business and worked with a number of employees to further development and implement their innovations.

Outlook

Predominantly as a result of the structural improvements that have been made over the past two years and the successful completion of the investment program, the performance of the 19Year Class to date is the best ever. Fish are the biggest they have ever been at this time of year, survival rates the highest and with improved feed conversion rates.

The benefits of the improved 19Year Class won't be realised until FY2021 and the increase in working capital it has driven has resulted in high debt levels being maintained.

Huon's forecast of production volumes for FY2020 of at least 25,000 tonnes, provided in its trading update at the AGM of 23 October 2019, is unchanged. There are currently fish in production that will support at least 30,000 tonne production in FY2021 which is where the business would have been if it had maintained its planned growth profile of 10% pa, prior to the setback experienced in FY2019.

While we remain focused on driving operating efficiencies through the business, the residual impact of the fish losses and poor growth from the 2018 Year Class have slowed the rate at which the cost of production can come down. Nevertheless we expect cost of production (including freight) in the second half to be similar to that in the first half at c. $11.80/HOG kg as the 2019 Year Class commence being harvested in the final months of FY2020..

Huon has experienced a challenging trading environment in the first half of FY2020. This was in part due to a better than expected season in other growing regions that lifted supply, and made our first half more challenging than first thought due to us exporting more fish this half than the prior corresponding period. Despite the pricing volatility experienced in the first half, market demand continues to exceed supply with international pricing forecast for CY2020 to be 17% above those seen in Q4 of CY2019.

Domestic demand continues to grow at around 10% pa whilst the supply dynamics both domestically and globally continue to be tight, underpinning long term revenue growth.

The building blocks are now in place for Huon to deliver the expansion in production that was envisaged at the time its Controlled Growth Strategy was launched in 2014. We have record biomass in the water and are confident that the completion of our second major efficiency and expansion programme will deliver a sustainable reduction in costs beyond FY2020. There is good reason to be optimistic that both operating and statutory earnings will recover strongly this year on those reported in FY2019.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 11 and forms part of this Directors' Report.

ROUNDING OF AMOUNTS

The company is of a kind referred to ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with the instrument.

This report is made in accordance with a resolution of Directors.

Peter Bender
Managing Director and CEO

Hobart
Date: 21 February 2020

Auditor's Independence Declaration

As lead auditor for the review of Huon Aquaculture Group Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Huon Aquaculture Group Limited and the entities it controlled during the period.

Alison Tait
Partner
PricewaterhouseCoopers

Melbourne
21 February 2020

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INTERIM FINANCIAL REPORT

For the half-year ended 31 December 2019

CONDENSED CONSOLIDATED INCOME STATEMENT

For the half-year ended 31 December 2019

	Notes	Half-year	
		2019	2018
		$'000	$'000
Revenue from operations	1	**178,118**	136,269
Other income		4,099	3,002
Expenses			
Fair value adjustment of biological assets		26,229	25,045
Changes in inventories of finished goods and work in progress		20,653	34,611
Raw materials and consumables used		(109,101)	(97,710)
Employee benefits expense	2 (a)	(41,261)	(34,996)
Depreciation and amortisation expense	2 (a)	(24,122)	(13,904)
Finance costs	2 (a)	(3,864)	(2,805)
Freight & distribution expense		(14,043)	(6,239)
Other expenses		(10,767)	(11,382)
Total expenses		**(156,276)**	(107,380)
Profit/ (loss) before income tax expense		**25,941**	31,891
Income tax (expense)/ credit		(3,945)	(5,541)
Profit/ (loss) for the half-year attributable to members of the Company		**21,996**	26,350

	Cents per share	Cents per share
	2019	2018
Earnings per ordinary share		
Basic (cents per share)	25.19	30.17
Diluted (cents per share)	25.19	30.17

The above condensed consolidated income statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2019

	Half-year	
	2019	2018
	$'000	$'000
Profit/ (loss) for the half-year	21,996	26,350
Other comprehensive income	-	-
Total comprehensive income for the half-year (net of tax)	**21,996**	26,350
Total comprehensive income attributable to:		
Owners of Huon Aquaculture Group Limited	21,996	26,350
	21,996	26,350

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000
Assets			
Current Assets			
Cash and cash equivalents		15,466	2,611
Trade and other receivables		30,845	30,468
Inventories		16,747	12,810
Biological assets	3	252,074	209,129
Other financial assets		-	56
Current tax receivable		3,753	1,578
Other assets		9,164	9,168
Total current assets		**328,049**	265,820
Non-current assets			
Financial assets		1,342	1,342
Property, plant and equipment	5	315,100	320,386
Right of use assets	18	83,049	-
Other assets	6	8,696	8,853
Intangible assets	14	3,325	3,325
Total non-current assets		**411,512**	333,906
Total assets		**739,561**	599,726
Liabilities			
Current liabilities			
Trade and other payables		88,614	72,430
Borrowings	8	7,404	9,652
Lease liabilities	18	11,710	-
Other financial liabilities		2,255	2,222
Provisions		7,802	7,581
Other current liabilities	15	464	464
Total current liabilities		**118,249**	92,349
Non-current liabilities			
Borrowings	8	147,777	131,742
Lease liabilities	18	83,009	-
Deferred tax liabilities		60,438	58,190
Provisions		2,849	1,365
Other non-current liabilities	15	1,762	1,960
Total non-current liabilities		**295,835**	193,257
Total liabilities		**414,084**	285,606
Net assets		**325,477**	**314,120**
Equity			
Contributed equity	9	164,302	164,302
Other reserves		1,672	1,324
Retained earnings		159,503	148,494
Total equity		**325,477**	**314,120**

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2019

	Notes	Contributed Equity	Retained Earnings	Share-based Payment Reserve	Total Equity
		$'000	$'000	$'000	$'000
Balance at 1 July 2018		**164,302**	**146,029**	**1,374**	**311,705**
Profit/ (loss) for the half-year		-	26,350	-	26,350
Other comprehensive income		-	-	-	-
Total other comprehensive income for the half-year, (net of tax)		-	26,350	-	26,350
Issue of shares pursuant to executive long term incentive plan				(601)	(601)
Share-based payment expense		-	-	282	282
Dividends paid or provided for		-	(4,367)	-	(4,367)
Balance at 31 December 2018		**164,302**	**168,012**	**1,055**	**333,369**
Balance at 1 July 2019		**164,302**	**148,494**	**1,324**	**314,120**
Adjustment on adoption of AASB 16 (net of tax)	18	-	(8,367)	-	(8,367)
Restated total equity at beginning of period		164,302	140,127	1,324	305,753
Profit for the period		-	21,996	-	21,996
Other comprehensive income		-	-	-	-
Total other comprehensive income for the half-year, (net of tax)		-	21,996	-	21,996
Issue of shares pursuant to executive long term incentive plan	10	-	-	-	-
Share-based payment expense	10	-	-	348	348
Dividends paid or provided for		-	(2,620)	-	(2,620)
Balance at 31 December 2019		**164,302**	**159,503**	**1,672**	**325,477**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

For the half-year ended 31 December 2019

	Notes	Half-year 2019 $'000	Half-year 2018 $'000
Cash flows from operating activities			
Receipts from customers		181,726	140,672
Payments to suppliers and employees		(157,209)	(131,975)
		24,517	8,697
Interest received		5	4
Interest and other costs of finance paid		(2,643)	(2,805)
Interest on lease liabilities		(2,279)	-
Income tax (paid)/ refunded		(286)	(7,451)
Net cash inflow/ (outflow) from operating activities		**19,314**	**(1,555)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		6	101
Payments for property, plant and equipment		(12,483)	(41,352)
Payment for other assets		(63)	(330)
Net cash inflow/ (outflow) from investing activities		**(12,540)**	**(41,581)**
Cash flows from financing activities			
Proceeds from borrowings		18,484	52,595
Repayment of borrowings		(4,697)	(2,761)
Payment for principal elements of lease liabilities		(5,086)	-
Payment of shares for employee share plan		-	(601)
Dividends paid to company's shareholders		(2,620)	(4,367)
Net cash inflow/ (outflow) from financing activities		**6,081**	**44,866**
Net increase/ (decrease) in cash held		12,855	1,730
Cash and cash equivalents at beginning of half-year		2,611	2,787
Cash and cash equivalents at end of half-year		**15,466**	**4,517**

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements and notes represent those of Huon Aquaculture Group Limited and Controlled Entities (the 'Consolidated Group'). Huon Aquaculture Group Limited is a company limited by shares, incorporated in Australia, and whose shares are publicly traded on the Australian Securities Exchange (ASX).

Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Huon Aquaculture Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

(a) New and amended standards adopted by the Group

The Group adopted all of the following new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

New and revised Standards and Interpretations effective for the current half-year relevant to the Group include:

(i) *AASB 16 Leases*

AASB 16 *Leases* became effective for the Group on 1 July 2019, and as a result the Group changed its accounting policies and made adjustments to opening retained earnings at 1 July 2019. The impact of adopting AASB 16 *Leases* is disclosed in note 18 – Changes in accounting policies.

(ii) AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015-17 Cycle*

The adoption of this amending Standard did not have any impact on the disclosures or the amounts recognised in the Group's condensed consolidated interim financial report.

(iii) Interpretation 23 *Uncertainty over Income Tax Treatments*

The adoption of this amending Standard did not have any impact on the disclosures or the amounts recognised in the Group's condensed consolidated interim financial report.

The standards did not require any retrospective adjustments.

(b) Impact of standards issued but not yet applied by the entity

A number of new standards, amendments of standards and interpretations have recently been issues but are not yet effective and have not been adopted by the Group as at the financial reporting date.

Management are currently assessing the impact of these standards, but do not believe they will have a material impact on the Group's accounting policies, financial position or performance.

(c) Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2019.

Performance

1. Revenue

	Sale of Goods		
	Domestic	Export	Total
	$'000	$'000	$'000
2019			
Segment revenue	121,028	57,090	178,118
Revenue from external customers	121,028	57,090	178,118
Timing of revenue recognition - at a point in time	**121,028**	**57,090**	**178,118**
2018			
Segment revenue	128,227	8,038	136,265
Revenue from external customers	128,227	8,038	136,265
Timing of revenue recognition - at a point in time	128,227	8,038	136,265

2. Profit for the half-year before tax

Profit before income tax from continuing operations includes the following items of revenue and expense:

	Half-year	
	2019	2018
	$'000	$'000
(a) Expenses:		
Gross depreciation of non-current assets	17,770	13,683
Gross depreciation of right of use assets	6,132	-
Gross amortisation of non-current assets	220	221
Total gross depreciation and amortisation	**24,122**	13,904
Depreciation – net impact recognised in changes in inventories of finished goods and work in progress	(4,757)	(1,956)
Net depreciation and amortisation	**19,365**	11,948
Interest and fees	3,119	2,805
Interest on lease liabilities	2,279	-
Total gross finance costs	**5,398**	2,805
Interest – net impact recognised in changes in inventories of finished goods and work in progress	(1,534)	-
Net finance costs	**3,864**	2,805
Employee benefits expense	41,261	34,996
Total employee benefits costs	**41,261**	34,996

2. **Profit for the half-year before tax (continued)**

Net (gain)/ loss on disposal or property, plant and equipment	(6)	38

(b) **Income tax**

Income tax expense is recognised based on management's estimate of the weighted effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the half-year to 31 December 2019 is 15%, compared to 17% for the six months ended 31 December 2018. The lower tax rates are as a result of carry forward losses and credits for research and development amendments.

3. **Biological assets**

	31 December 2019 $'000	30 June 2019 $'000
Biological assets at fair value (i)		
Opening balance	209,129	169,361
Increase due to production	171,110	273,557
Decrease due to sales/ harvest/ mortality	(154,394)	(224,671)
Movement in fair value of biological assets	26,229	(9,118)
	252,074	209,129
Closing fair value adjustment on biological assets	52,787	26,558
Total weight of live finfish at sea (kg 000's)	23,001	16,886

(i) Members of the Consolidated Group, Huon Aquaculture Company Pty Ltd and Springfield Hatcheries Pty Ltd grow fish from juveniles through to harvest.

	31 December 2019			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Biological assets	-	-	252,074	252,074
Total financial assets recognised at fair value	-	-	252,074	252,074

	30 June 2019			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Biological assets	-	-	209,129	209,129
Total financial assets recognised at fair value	-	-	209,129	209,129

3. Biological assets (continued)

Fair value measurements using significant unobservable inputs

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements (refer to note 11 for details of fair value measurements and hierarchy):

Description	31 December 2019	30 June 2019
Biological assets at fair value ($'000)	252,074	209,129
Unobservable inputs	Adjusted weight of live finfish for fair value measurement: 21,265 tonne Price per HOG kg $13.77 to $14.27	Adjusted weight of live finfish for fair value measurement: 14,395 tonne Price per HOG kg $14.53 to $15.03
Relationship of unobservable inputs to fair value	Increase in price would increase fair value	Increase in price would increase fair value

Critical accounting estimates

Biological assets are measured at fair value less costs to sell in accordance with AASB 141. Broodstock, eggs, juveniles, smolt and live fish below 1kg are measured at cost, as the fair value cannot be measured reliably. Biomass beyond this is measured at fair value in accordance with AASB 141, and the measurement is categorised into Level 3 in the fair value hierarchy, as the input is an unobservable input. Live fish over 4kg are measured to fair value less cost to sell, while a proportionate expected net profit at harvest is incorporated for live fish between 1kg and 4kg. The valuation is completed for each year class of finfish, for each species and, each significant location.

The valuation is based on a market approach and takes into consideration inputs based on biomass in sea for each significant location, estimated growth rates, mortality and market price. There is no effective market for live finfish produced by the Consolidated Group so market price is determined on a model based on market prices for both salmon and trout, derived from observable market prices (when available), achieved prices and estimated future prices for harvest finfish.

4. Dividends

	Half-year	
	2019	2018
	$'000	$'000
Fully paid ordinary shares		
Dividends paid for or provided for during the half-year	2,620	4,367

Investment in controlled growth strategy

5. Property, plant and equipment

	Land and Buildings		Plant and Equipment		
	Freehold Land	Buildings	Plant and Equipment	Capital Work in Progress	Total
Consolidated	$'000	$'000	$'000	$'000	$'000
At 30 June 2019					
Cost	5,294	67,084	392,531	19,736	484,645
Accumulated depreciation	-	(9,040)	(155,219)	-	(164,259)
Net carrying amount	**5,294**	**58,044**	**237,312**	**19,736**	**320,386**
Half-year ended 31 December 2019					
Net carrying amount at the beginning of the half-year	5,294	58,044	237,312	19,736	320,386
Additions	-	145	153	-	298
Disposals and write-offs	-	-	-	-	-
Work in progress additions	-	-	-	12,185	12,185
Depreciation and amortisation	-	(1,652)	(16,118)	-	(17,770)
Acquisition in business combination	-	-	-	-	-
Capitalisation to asset categories	-	-	13,172	(13,172)	-
Transfers between classes	-	-	-	-	-
Net carrying amount at the end of the half-year	**5,294**	**56,537**	**234,519**	**18,749**	**315,099**
At 31 December 2019					
Cost	5,294	67,229	405,856	18,749	497,128
Accumulated depreciation	-	(10,692)	(171,337)	-	(182,029)
Net carrying amount	**5,294**	**56,537**	**234,519**	**18,749**	**315,099**

6. Other non-current assets

	31 December 2019	30 June 2019
	$'000	$'000
Marine farming sites		
Cost	16,307	16,244
Accumulated amortisation	(7,611)	(7,391)
	8,696	8,853

Amortisation expense is included in the line item "Depreciation and amortisation expense" in the income statement.

7. Capital commitments

	31 December 2019 $'000	30 June 2019 $'000
Plant and equipment	-	1,042
Capital expenditure projects	-	-
	-	1,042
Payable:		
Not longer than 1 year	-	1,042
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	-	1,042

Net debt and working capital

8. Borrowings

The total amounts available under the facilities are shown below in the Summary of facilities table.

	31 December 2019 $'000	30 June 2019 $'000
Current		
Secured		
Bank loans	7,404	6,157
Other loans	-	3,495
Unsecured		
Other loans	-	-
	7,404	9,652
Non-current		
Secured		
Bank loans	147,731	131,696
Other loans	-	-
Unsecured		
Other loans	46	46
	147,777	131,742
	155,181	141,394

The weighted average effective interest rate on the bank loans is 2.54% per annum (30 June 2019: 3.55% per annum).

8. Borrowings (continued)

Summary of facilities ($'000)	31 December 2019 $'000		30 June 2019 $'000	
	Limit	Undrawn Balance	Limit	Undrawn Balance
Term loan	45,000	-	46,250	-
Term loan	110,000	2,000	110,000	18,000
Working capital	15,000	12,500	10,000	10,000
Bank guarantee	7,500	6,889	2,500	200
Uncommitted term loan	20,000	20,000	20,000	20,000
Uncommitted foreign exchange contracts	-	Discretionary	-	Discretionary
Uncommitted interest rate swaps	-	Discretionary	-	Discretionary
Aggregate facility limit	197,500	-	188,750	-
Aggregate undrawn balance	-	41,389	-	48,200

Loan covenants:

Under the terms of the Facilities, the Consolidated Group is required to comply with certain financial covenants. The following changes were made to the loan covenants:

- the leverage ratio covenant was increased from less than 2.75 times to less than 3.00 times at 31 December 2019;
- the leverage ratio covenant will increase to 3.5 times at 30 June 2020, then revert back to 2.75 times.

Refer to the 30 June 2019 annual report for full details of the covenants in place. The Consolidated Group complied with the financial covenants throughout the period.

9. Issued Capital

	Consolidated 2019		Consolidated 2018	
	No.	$'000	No.	$'000
Ordinary share capital (fully paid):				
Ordinary shares	87,337,207	164,302	87,337,207	164,302

The Company has authorised share capital amounting to 87,337,207 ordinary shares of no par value. There were no movements in share capital during the reporting period.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

The voting rights attaching to ordinary shares are, on a show of hands every member present at a meeting in person or by proxy shall have one vote, and upon a poll each share shall have one vote.

There are no unquoted equity securities on issue.

There is no current on-market buy-back in respect of the Company's ordinary shares.

Other

10. Share-based payments

(a) Share-based payment arrangements

The Group offers the Chief Executive Officer and senior management the opportunity to participate in the Long-Term Incentive Plan ("the Plan"), which involves performance rights to acquire shares in Huon Aquaculture Group Limited. Refer to the annual report at 30 June 2019 for details of the Plan.

(b) Performance rights granted

Set out below is a summary of performance rights granted under the LTI plan.

Grant Date	Performance Period		Balance at start of period (number)	Granted during the period (number)	Forfeited during the period (number)	Vested during the period (number)	Balance at end of period (number)	Fair Value
	From	To						
30-Nov-16	1-Jul-16	30-Jun-18	110,424	-	-	-	110,424	$3.71
30-Nov-16	1-Jul-16	30-Jun-19	97,650	-	-	-	97,650	$3.71
30-Nov-17	1-Jul-17	30-Jun-20	210,429	-	-	-	210,429	$4.01
31-Oct-18	1-Jul-18	30-Jun-21	237,360	-	-	-	237,360	$4.26
23-Oct-19	1-Jul-19	30-Jun-22	-	263,502	-	-	263,502	$4.30

(c) Fair value of performance rights granted

The fair value of performance rights is measured at grant date using a Black-Scholes pricing model that takes into account the term of the performance right, the share price at grant date, the expected volatility of the share price (based on historical daily closing share prices), the expected dividend yield of 1.3% (in accordance with current dividend policy), and the risk free interest rate.

The expense recognised in relation to performance rights applicable to the Chief Executive Officer and senior management for the half-year ended 31 December 2019 is $348,598 (31 December 2018: $281,923).

11. Fair value measurements

The Consolidated Group measures and recognises the following assets at fair value on a recurring basis after initial recognition:

Biological assets (refer to note 3)

The Consolidated Group does not subsequently measure any liabilities at fair value on a recurring basis, or any assets or liabilities at fair value on a non-recurring basis.

Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1: Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Consolidated Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured.

There has been no change in the valuation technique(s) used to calculate the fair values disclosed in the financial statements.

There have been no transfers between the fair value measurement levels during the financial year.

All other financial asset and liabilities that are measured at cost have a carrying amount that approximates the fair value at balance sheet date.

12. Key management personnel compensation

Remuneration arrangements of key management personnel are disclosed in the annual financial report.

13. Related party transactions

There have been no significant transactions entered into with related parties during the interim period.

14. Goodwill and other intangible assets

	31 December 2019 $'000	30 June 2019 $'000
Gross carrying amount		
Balance at the beginning of the period	4,496	4,496
Additions	-	-
Balance at the end of the period	**4,496**	4,496
Accumulated impairment losses		
Balance at the beginning of the period	(1,601)	(1,601)
Impairment losses for the period	-	-
Balance at the end of the period	**(1,601)**	(1,601)
Net book value		
Balance at the beginning of the period	2,895	2,895
Balance at the end of the period	**2,895**	2,895
Other intangible assets	**430**	100
	3,325	2,995

15. Other liabilities

	31 December 2019 $'000	30 June 2019 $'000
Deferred government grants		
Current	464	464
Non-current	1,762	1,960
	2,226	2,424

16. Contingent liabilities & contingent assets

There are no contingent liabilities or contingent assets at the date of this interim financial report.

17. Segment information

The chief operating decision maker for the Consolidated Group is the Chief Executive Officer of the Parent Entity. The Parent Entity determines operating segments based on information provided to the Chief Executive Officer in assessing performance and determining the allocation of resources within the Consolidated Group. Consideration is given to the Consolidated Group's products, the manner in which they are sold, the organisational structure of the Consolidated Group and the nature of customers.

The Consolidated Group hatches, farms, processes, markets and sells Atlantic salmon and ocean trout. Revenue associated with exports meets the quantitative thresholds and management concludes that this segment is reportable.

17. Segment information (continued)

	Note	Half-year	
		2019	2018
		$'000	$'000
Revenue from the sale of goods			
Domestic market		121,028	128,227
Export market		57,090	8,038
Total revenue from the sale of goods	1	**178,118**	136,265
Results from segment activities			
Domestic market		28,109	29,191
Export market		377	593
Total results from segment activities		**28,486**	29,784
Unallocated		(3,634)	(1,765)
Interest income		5	4
Other income		4,094	3,002
Depreciation – net impact in inventory		4,757	1,956
Other expenses		(10,767)	(11,382)
Operating EBITDA (1)		22,941	21,599
Depreciation and amortisation expense		(19,365)	(11,948)
Finance costs		(3,864)	(2,805)
Fair value adjustment		26,229	25,045
Profit/ (loss) before income tax expense		**25,941**	31,891

(1) Pre the adoption of AASB 16 Operating EBITDA was $20,356.

The total of the reportable segments' profit, assets and liabilities is the same as that of the Consolidated Group as a whole and as disclosed in the condensed consolidated income statement, the condensed consolidated statement of comprehensive income and the condensed consolidated balance sheet.

All segment revenue disclosed above relates to sales with external customers. No inter-segment revenue has been recognised.

All of the non-current assets are located in Australia being the domicile country of the Consolidated Group.

The chief operating decision maker only reviews export market sales.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

18. Changes in accounting policies

(i) AASB 16 Leases

The Group has adopted AASB 16 using the modified retrospective approach from 1 July 2019 and as such has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions.

Adopting AASB 16 resulted in the Group recognising lease liabilities in relation to leases which had previously been classified as operating leases under AASB 117 Leases.

These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 July 2019. The Group's incremental borrowing rate applied to the lease liabilities was between 2.38% and 5.38%, depending on the term of the lease.

The Group previously had no finance leases recorded.

Impact on Financial Statements

Lease liabilities recognised on adoption of the standard are reconciled as follows:

	1 July 2019 $'000
Operating lease commitments disclosed at 30 June 2019	232,565
Removal of assets not available for use (1)	(129,838)
Discounted using the lessee's incremental borrowing rate	(22,343)
Add: Adjustments for reasonably certain options	19,045
Lease liability recognised as at 1 July 2019	**99,429**
Comprising:	
Current lease liabilities	12,268
Non-current lease liabilities	87,161
	99,429

(1) Removal of assets not available for use include a range of equipment, the most significant portion relating to the 'Ronja Storm'.

The associated right of use assets for marine and other higher value leases were measured on a retrospective basis as if the new rules had always been applied. Other right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

In addition to the adoption of AASB 16, the Group also reassessed its accounting estimate for the allowance for make good on leased plant & equipment, which is included as a provision in the balance sheet. The reassessment resulted in an increase in the make good provision with the corresponding increase recognised in the right of use asset which will be amortised over the term the asset is held for use.

18. Changes in accounting policies (continued)

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 $'000	1 July 2019 $'000
Buildings	20,236	20,738
Plant & equipment	57,267	62,348
Marine leases	5,546	5,720
	83,049	88,806

The effect of these changes on the balance sheet at 1 July were as follows:

	1 July 2019 $'000
Right-of-use assets – increase	88,806
Deferred tax assets – increase	3,586
Total impact on assets	**92,392**
Lease liabilities – increase	99,429
Provisions – increase	1,330
Total impact on liabilities	**100,759**
Net impact on retained earnings – decrease	**8,367**

Leases as a lessee

The Group leases various assets. Rental contracts are typically made for fixed periods, but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate
- Amounts expected to the payable by the lessee under residual value guarantees.

The lease payments are discounted using the interest rate implicit in the lease, it that rate can be determined, or the Group's incremental borrowing rate.

18. Changes in accounting policies (continued)

Right of use assets are measured at cost compromising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date, less and lease incentives received
- Any initial direct costs, and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Practical Expedients Applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to apply AASB 16 to contracts that were not identified as containing a lease under AASB 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

Extension Options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

19. Subsequent events

In the interval between the end of the half-year and the date of this report there has not been any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Consolidated Group, the results of those operations, and the state of affairs of the Consolidated Group, in future financial years.

20. Company details

The registered office of the company is:

Huon Aquaculture Group Limited
Level 13, 188 Collins Street
Hobart, Tasmania 7000

The principal place of business is:

Huon Aquaculture Group Limited
961 Esperance Coast Road
Dover, Tasmania 7109

DIRECTORS' DECLARATION

In the directors' opinion;

(a) the financial statements and notes set out on pages 13 to 32 are in accordance with the *Corporations Act 2001* including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Consolidated Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Neil Kearney
Chairman

Date: 21 February 2020

Peter Bender
Managing Director and CEO

Date: 21 February 2020

Independent auditor's review report to the members of Huon Aquaculture Group Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Huon Aquaculture Group Limited (the Company) which comprises the condensed consolidated balance sheet as at 31 December 2019, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and condensed consolidated income statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration for the Consolidated Group. The Consolidated Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Huon Aquaculture Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Huon Aquaculture Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Alison Tait

Alison Tait
Partner

Melbourne
21 February 2020