

# Tassal Group Limited

Annual General Meeting

2 November 2007

# Chairman's Address

# Highlights

- **Outstanding Performance with**
  - Revenue of \$245.92 million [2006: \$203.41 million] – an increase of 21%
  - EBIT of \$32.75 million [2006: \$18.65 million – an increase of 76%
  - NPAT of \$20.14 million [2006: \$10.55 million] – an increase of 91%
- **“Normalised”**
  - Revenue of \$144 million [2006: \$127.07 million] – an increase of 13%
  - EBIT of \$26.81 million [2006: \$19.85 million] – an increase of 35%
  - NPAT of \$15.99 million [2006: \$11.19 million] – an increase of 43%
- **Unfranked final dividend of 2.75 cents per share declared. With an unfranked interim dividend of 2.50 cents per share, total dividend of 5.25 cents per share for FY2007 (FY2006 total dividend 4.75 cents per share) – an increase of 10.50%**
- **DRP again in place for the FY2007 final dividend (5% discount) = to support continued investment in fish growth and marine and processing infrastructure, together with further improved gearing levels. The Board is currently reviewing the DRP Rules to ensure that they are consistent with best practice**

# Highlights

- With respect to FY2008, Tassal is intending to continue to return an increasing dividend payment to shareholders
- Despite the increased investment in fish inventory and marine and processing infrastructure, Tassal has been able to improve its gearing position with a net debt to equity ratio of 49.71% [2006: 55.32%]
- The Board remains of the view that Tassal will continue to achieve further substantial increases in both financial and operational performance for at least the period to FY2015
- Management is incentivised around being able to deliver at least a "Normalised" average 30% EPS growth per annum for each of the FY2008, FY2009 and FY2010 financial years
- Tassal has in place a fully integrated and robust Strategic Plan to FY2015 – this plan demonstrates that strong EPS growth can continue beyond 2010
- The Board is comfortable that the strategy of global best practice in both aquaculture production and processing is achievable for Tassal, together with being able to achieve premium returns from our sales and marketing initiatives

# Highlights

- The Board (through our Audit & Risk Committee) and Management have spent a significant amount of time developing and implementing a robust Risk Map and Risk Mitigation Plan. Given the nature of our business and industry, we proactively manage risk on a daily basis
- The Risk Map and Risk Mitigation Plan is a “living and breathing” document and underpins both our Strategic Plan to FY2015 and our sustainability
- Our success at managing risk has been evident with the significant reductions that we have received in insurance premiums since our listing in November 2003 – none more important and measurable than how we have managed the risk associated with our human capital where we have been able to drive our days lost, lost time injuries and workers compensation claims to global best practice – not just in aquaculture, but by any standards
- To support this position, our workers compensation minimum deductible has reduced from 2.1% of payroll to 0.75% over the last 2 years - and we are still driving it lower

# Highlights

- **It is prudent to note that Tassal must continue to ensure that it has appropriate risk mitigation strategies in place. The Board considers this to be the case and that the following risks, albeit not exhaustive, are worth noting:**
  - **Tassal is an aquaculture stock and therefore subject to agricultural risk**
  - **Tassal delivers global best practice in terms of product quality, animal welfare and human safety – the clean marine farming environment in Tasmania means most of our fish are healthy throughout their lives, and never encounter antibiotics at all, however, occasionally we need to treat sick fish with antibiotics as prescribed by a vet. Vaccines can be expected to increasingly supplant the use of antibiotics to contain occasional illness. Fish are not harvested until antibiotic residues have been metabolized and reduced to below prescribed Maximum Residue Levels**
  - **Given the export strategies in place and the current A\$ v US\$ and Yen, there exists some exchange risk**
  - **With the general state of the Australian economy, there is an interest rate risk**
  - **With increased biomass, there is some pricing risk in the domestic market**

# Managing Director & CEO's Address

# Marine Operations

- **We have maintained our focus on the elements that are essential in delivering our goal of global cost competitiveness:**
  - Maximising growth
  - Maximising survival rates
  - Improving FCR
  - ... and most importantly, reducing costs
- **Key elements in achieving the results:**
  - Implemented automatic feeders to cover all fish stock
  - Improved fish husbandry practices
  - Increased fish size
  - Increased smolt to sea
  - Increased scalability
  - Lowered feed conversion rates
- **Continued achievement of these key elements are required to deliver on our Strategic Plan**

# Marine Operations

- **Comprehensive Hatchery Review has now concluded – we clearly understand what infrastructure from a capital, financial and operational perspective is required for Tassal to put in place to allow us to deliver on our Strategic Plan FY2015**
- **Pertinent issues from a Tasmanian Salmon Industry and Tassal perspective are:**
  - **Risks and Risk Mitigation**
  - **Water resources**
  - **Capacities**
  - **Broodstock Management**
  - **Cross hatchery insurance / support**
- **New Feed Agreement has been negotiated to September 2015 – the Agreement allows our feed producer to ensure it is able to put in place appropriate infrastructure to support our Strategic Plan FY2015, whilst at the same time ensuring that we have a globally competitive feed diet at a globally competitive cost**

# Marine Operations

- Our current harvest size for our fish is around 4.0kg to 4.2kg hog – with the average harvest size for the full year class still considered to be around 4.1kg hog
- Our next year class (to be effectively harvested in FY2009) is currently 30% larger than the current harvest year class was at the same time last year
- With the Strategic Plan FY2015 – the key marine priorities are:
  - Fish size – increasing fish size is the number one priority for the business – target an average size of 5kg hog by FY2015
  - Fish survivability – improving fish survivability is fundamental for Tassal – target 90%+ survival rate by FY2015
  - Selective Breeding Program – first commercial stock from the program is likely to be the 2009 Year Class (i.e. harvest FY2011) – program will underpin improvements in average fish size and survivability

# Processing

- **Significant cost reductions achieved over the last 4 years – underpinned by**
  - improved processing throughput and efficiencies
  - Improved automation of processing techniques

	<b>\$/kg Hog</b>	<b>Improvement %</b>
<b>FY2004</b>	<b>\$ 3.15</b>	
<b>FY2005</b>	<b>\$ 2.87</b>	<b>9%</b>
<b>FY2006</b>	<b>\$ 2.61</b>	<b>9%</b>
<b>FY2007</b>	<b>\$ 1.77</b>	<b>32%</b>

- **Comprehensive Processing Review has now been concluded – the review focussed on ensuring that the appropriate infrastructure from a capital, financial and operational perspective is in place to allow Tassal to deliver on its Strategic Plan FY2015 and therefore, global best practice from a processing perspective ... pertinent issues are:**
  - Processing facilities upgrade – including by-products
  - On-site harvesting
  - Environmental sustainability
  - Logistics and storage
  - Freezing and warehousing infrastructure

# Processing

- We are now commencing both a Development Proposal and Environmental Management Plan – and associated Development Application for the necessary upgrades to our Processing Facilities

# Sales and Marketing

- Sales performance of Tassal's core products for FY2007 was solid

<b>Sales Growth for FY2007</b>	<b>Volume Growth %</b>
<b>Core Domestic Products</b>	
Fresh Hogg	21%
Fillets & Portions	17%
Smoked Salmon	6%
<b>Core Export Products</b>	
Fresh Hogg	81%
<b>Total Core Sales Growth</b>	<b>21%</b>

- Tasmanian Salmon Marketing Campaign for FY2007 – ran from October 2006 to March 2007) – underpinned sales effort – involved radio, magazine and heavy in-store activity in Woolworths and Coles - market volume grew at 27% (21% domestic – 126% export)

# Sales and Marketing

- **Tasmanian Salmon Marketing Campaign for FY2008 – will now run from mid-November 2007 to April 2008 – with the focus on 20% domestic market growth and driving awareness and education of Tasmanian Atlantic Salmon through education of the health, versatility and value of Salmon**
- **The role of Omega 3**
  - **In a saturated market, we need to be careful that we do not challenge ourselves to actioning a 'category job' – i.e. trying to "own" Omega 3 or educating all consumers about why Omega 3 is important**
  - **Communication objective is for Tasmanian Atlantic Salmon reclaiming leadership of the Omega-3 health platform by leveraging and supporting the Superfoods platform through all touch points – no-one yet has claimed "ownership" of the Superfoods platform**

# Conclusion

- Continued progression of operational and financial initiatives achieved in FY2007 will ensure future sustained profitable growth – underpinned by initiatives in Strategic Plan FY2015
- Tassal looking forward to a higher NPAT in FY2008 – market guidance is a “Normalised” NPAT of \$20 million to \$21 million
- With improved fish size and survival – Tassal will be able to fast-track its push to become globally cost competitive from an aquaculture processing and production perspective
- From a global perspective it appears:
  - Atlantic Salmon is becoming increasingly popular – health and well being aspects underpinning this popularity
  - Development of new feed formulations will give us new stable sources of nutrition and reduce the reliance on any single raw material input
  - Global farmed Atlantic Salmon harvest volume is likely to grow somewhere between 8% to 11% in calendar year 2007 – supply and demand should be in equilibrium – Norway has achieved excellent fish size, whilst Chile continues to face disease issues